NOVEMBER 1989

INCENTIVE

SELLING SERVICE

The Japanese have taught Detroit how to produce quality cars. Now, U.S. car makers are teaching the Japanese how to provide quality service . . .

The 1990 Mitsubishi Eclipse GSX Turbo

PLUS Teamwork helps airline cut costs
Star saleswoman shares strategies
Pet Dairies milks profits from promotions

A BILL PUBLICATION

NOVEMBER 1989

INCENTIVE

MANAGING AND MARKETING THROUGH MOTIVATION

85TH YEAR, VOL. 163, NO. 11

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As U.S. cars approach Tokyo-style quality and price, Japanese companies are banking on American-style customer service incentives to give them the edge.

BY ERIKA PENZER

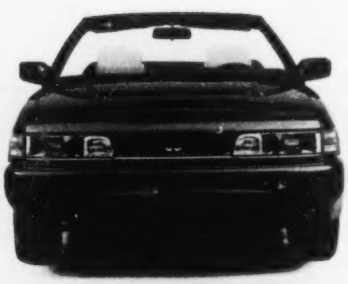

PHOTO: 1990 NISSAN INFINITI M30 CONVERTIBLE

SELLING SERVICE

Lessons FROM America

Japanese car makers taught Detroit a lesson about turning out quality cars. Now, U.S. car makers have narrowed the quality gap, forcing Japanese companies to take a new look at how to keep American customers satisfied.

Until recently, the Japanese companies could afford to put service on a back burner. Americans craved dependable Japanese cars at reasonable prices and gladly waited months for hard-to-get Tokyo imports. Sales volumes at companies like Toyota, Nissan and Honda soared. With demand high and supply relatively low, customer service was a low priority. "Japanese dealers have traditionally functioned in a 'taillights out the door' mode," says Chuck Bohon, editor of Automotive Age, Van Nuys, Calif.

By contrast, the American car makers, faced with declining sales and manufacturing mishaps, embraced customer service as a last resort against losing buyers forever to overseas manufacturers. American companies like General Motors, Ford and Chevrolet developed extensive customer-satisfaction programs that quickly became the norm among domestic manufacturers.

Now the car market is more competitive than ever. Detroit cars have improved tremendously in quality, and, at the same time, the dollar has fallen against the yen, making Japanese cars significantly more expensive. "The car market hasn't changed: Americans bought 10.5 million cars in 1978, and they bought 10.5 million cars in 1988. The difference is that now there are lots more cars on the market, including those from Korea and from smaller Japanese companies like Mitsubishi and Isuzu," Bohon says.

Borrowing from the strategies of their American counterparts, most of the Japanese companies have jumped on the customer-service bandwagon. And the way in which they have turned to improving customer service is strikingly similar to that of the U.S. car makers. This makes sense, says Bohon, considering that most of the executives at the U.S. divisions of Japanese car companies came straight from Detroit and brought customer-service know-how with them. "GM was the first to start a CSI [customer satisfaction index] program, surveying new buyers back in 1979," Bohon notes. Ford and Chevrolet soon followed suit, and CSI's have been a staple of American dealer service ever since.

Subaru of America pioneered a customer satisfaction program five years ago, using an outside agency to make follow-up calls to car buyers. It has since expanded the program and developed a customer service department that tracks buyer responses. "Originally, we found that there was a very high percentage of people who would walk and buy somewhere else if they weren't satisfied with the service they were getting," says Joe Barstys, the Cherry Hill, N.J.-based company's manager of customer satisfaction operations.

At present, Subaru's Owner Loyalty Program may be the most extensive follow-up program of all the Japanese manufacturers. Customers are surveyed after one month, 10 months, two years and three years of ownership. "We ask them how they liked their salesperson and if they were satisfied with the state of the car when they picked it up," Barstys explains. "Did the dealer do everything he said he would do? Did the salesperson explain all the features of the car to your satisfaction? Did the salesperson know enough about the car? Did he or she explain your warranty fully? We want to know exactly what the customer thinks about the dealer."

Data from the customer contact calls is collected, tabulated and reported to dealers monthly. In addition, the data is broken down on three levels: by individual dealership, regionally and nationally. That way, Barstys explains, a dealer can see exactly how his or her customer service ratings compare with other Subaru dealers in the region and all Subaru dealers nationally. Incentive programs reward dealers who exceed their regional customer service average.

Nissan began using telephone follow-up surveys in September 1988. Every Nissan customer who buys a car or truck receives a phone call asking for comments on the dealership's customer relations, including the friendliness and effectiveness of salespeople and the state of the car at the time the customer picked it up. Dealers receive reports detailing their customers' responses from Nissan every month, according to Joe Fenton, national merchandising manager for the Nissan division of Nissan Motor Corporation U.S.A., based in Orange, Calif.

The company's 10-year-old Award of Merit program, which awards top dealers with an annual off-site meeting, is based on total excellence in dealer operations. This does include sales and profitability, but also considers how well service areas are maintained and equipped. To be invited on the trip, dealers must have an above-average customer service index compared to the total average of all Nissan dealers in the country. Last year, the dealers went to a resort in Phoenix with members of top Nissan management; Ronald Reagan joined the group as guest speaker at the award ceremony.

Mitsubishi Motor Sales of America recently tested a customer follow-up program in Atlanta and claims to be happy with the results. Now, the Cypress, Calif.-based company is expanding the program nationally and has hired an outside agency to make calls and issue reports, says vice president of sales Rick Lepley. Distinguished Dealer Awards are given to those dealerships that achieve an above-average CSI and maintain an acceptable part-to-fill ratio by carrying enough parts to service all the cars in their areas.

Only American Isuzu Motors, Whittier, Calif., has rejected using follow-up surveys, mainly, says Bohon, because the company probably cannot afford them. But Leon Rosen, Isuzu's national marketing director, also questions their effectiveness. "We've looked at various customer service indices but have found lots of holes in them," he says. "What if the customer doesn't get along with the salesperson, if the chemistry's wrong? Whose fault is it if bad chemistry alters the way a customer sees a dealership? Did the sales manager train the salesperson poorly, or was it strictly a personality thing? We don't think a dealer is responsible for those things. And we haven't found a formula yet that works for us."

But Subaru's Barstys disagrees. "If something like that happens, it should reflect badly on a dealership," he says. "It's the whole experience that's going to make the customer decide whether he or she wants to come back and buy a car from that place again. If customers aren't happy for any reason, the dealer principal ought to know about it."

The relationship between manufacturer and dealer is just as important as the one between dealer and customer. Nissan executives say getting good service from a manufacturer is more important to dealers than tangible incentives like trips and televisions, and Bohon agrees. "Most dealers, especially those who own more than one franchise, get so many trips and other incentives that they don't know what to do with them," he says. "They get jaded. Sometimes they don't even bother to take them. What's really important to a dealer is having a cooperative field representative, someone who's going to help him out."

Nissan's Fenton concurs, adding that a company with

■ DEALER SERVICE COSTS IN 1988

Manufacturer	Average dealer cost
►Porsche/Audi	$9.3 million
►Mercedes	8.8
►Cadillac	7.7
►Chevrolet	7.2
►Volvo	7.0
►Ford	6.4
►BMW	6.1
►Nissan	6.1
►Toyota	5.5
►Honda	5.3
►Mazda	3.3

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multi-franchise dealers can gain an edge here: "The easiest way to make yourself a dealer's favorite franchise is to treat him right."

Each dealership has individual problems, Bohon notes, and needs individualized attention from manufacturers. "Dealers have to deal with the motor vehicle bureau, the EPA, city governments and the car factories," he says. "The last thing they need is a field rep who's going to send back warranty forms because they're not filled out just so. And if a dealer is happy in his manufacturer relationship, it's going to be reflected in his customer service."

Several companies claim to be committed to maintaining good manufacturer-dealer relations. In addition to its dealer incentive programs, Nissan devises marketing strategies for dealers so that they feel they are approaching the customer under the Nissan umbrella.

Motivating dealer salespeople through incentive and recognition programs seems to be gaining in popularity, as well. "If you can motivate the salesperson, you're in great shape," says Subaru's national advertising and incentives manager, Mark Dunn. "That's the person who's making the initial contact, and that's the person who's recommending one car over another."

Nissan's Professional Sales Guild was developed as a way to build brand loyalty, says Fenton. Salespeople who attend training sessions and new-product seminars take quizzes based on what they have learned. Correct answers earn points that can be traded for merchandise. In addition, each individual's performance is tracked by the dealer through its customer follow-up reports. Nissan even has recognition programs in place for mechanics, parts personnel and technicians.

But when it comes down to it, says Barstys, the bottom line is still the bottom line. "We try to show dealers that good customer service is good business, that it's a way to maintain profitability," he says. Telling a dealer, for example, that 85 percent of his customers commented on the unprofessional behavior of salespeople

THE 1990 SUBARU JUSTY

When it comes down to it, the bottom line is still the bottom line: Car makers need to show dealers that good customer service is a way to maintain profitability.

and 55 percent of those who complained said they would not buy a car from that dealership again "makes him see the bottom line real fast," Barstys notes.

The other side of motivating dealers is strictly number-based. Sales incentive programs are fundamental to most car makers, and the Japanese companies are not exempt from that reality.

To go on Nissan's current incentive trip, dealers must reach a specific sales goal between Sept. 6 and Dec. 4, 1989. Regional managers set a target for each dealership based on past sales history during a similar period. "Our expectations are fair, not extravagant," says Fenton. "We ask them to sell a little more than our expectations, but not too much—nothing unreachable." Nissan expects to take almost 300 dealers and their spouses with some members of top management on a six-day Mexican cruise in January, ending up in New Orleans for the Super Bowl—a Nissan tradition for the past several years.

Subaru's most recent sales incentive program targeted top-volume dealers, sales managers and dealer salespeople. The program, which ran from July 4 through Sept. 5, took 120 dealer principals and spouses on a 10-day cruise through the Caribbean. In addition, 250 sales managers spent four days in Las Vegas, and 100 salespeople went to Dayton, Ohio, and had 60 seconds to run through a warehouse of merchandise. Whatever they could carry, they kept.

Mitsubishi ran a summer sales incentive program this year to promote its subcompact, Mirage and Precis models, says Lepley. The 10 highest-volume dealers, along with the two dealers in each of five regions who sold the highest percentage against their target sales goals, will cruise for 10 days from Singapore to Bali. Each dealership has its own goal based on past performance, "so that the smaller dealers can participate too," Lepley says. The annual sales incentive trips are for dealer principals only and are "first-class all the way," he adds.

Isuzu has run three "shopping sprees" for dealers and spouses in which the top 50 dealers spent accrued points on merchandise at Neiman-Marcus and stores in New York's Trump Tower. Although past history seems a fair way to set sales goals, Isuzu's Rosen points out that if the market has changed significantly, "it's unreasonable to expect dealers to be able to sell the same number of cars they did last year. The auto market is so tough now—we can't expect our dealers to be as successful."

Some manufacturers still struggle with making sales incentive programs fair to all dealerships while not overrunning their budgets. "We know our program discriminates against our smaller dealers," Rosen says. Isuzu is looking at ways to have dealers compete for trips and other prizes with other dealers their size—perhaps running separate programs for three or four levels of dealers.

Only Honda claims to have little need for sales incentive programs. "In general, we don't do them. We haven't done them because we haven't had to—and we consider that our advantage," says Mike Spencer, administrator of public relations for the Gardena, Calif.-based company. "We're immune to having to resort to fire-sale tactics." The company did run one cash-back incentive program for dealers this year to get rid of 1989 models so dealer showrooms would be clear when the 1990 Acura Integras came in, but according to Spencer, that was an anomaly. The company has no plans for future incentive programs, he says. □

DECEMBER 1989

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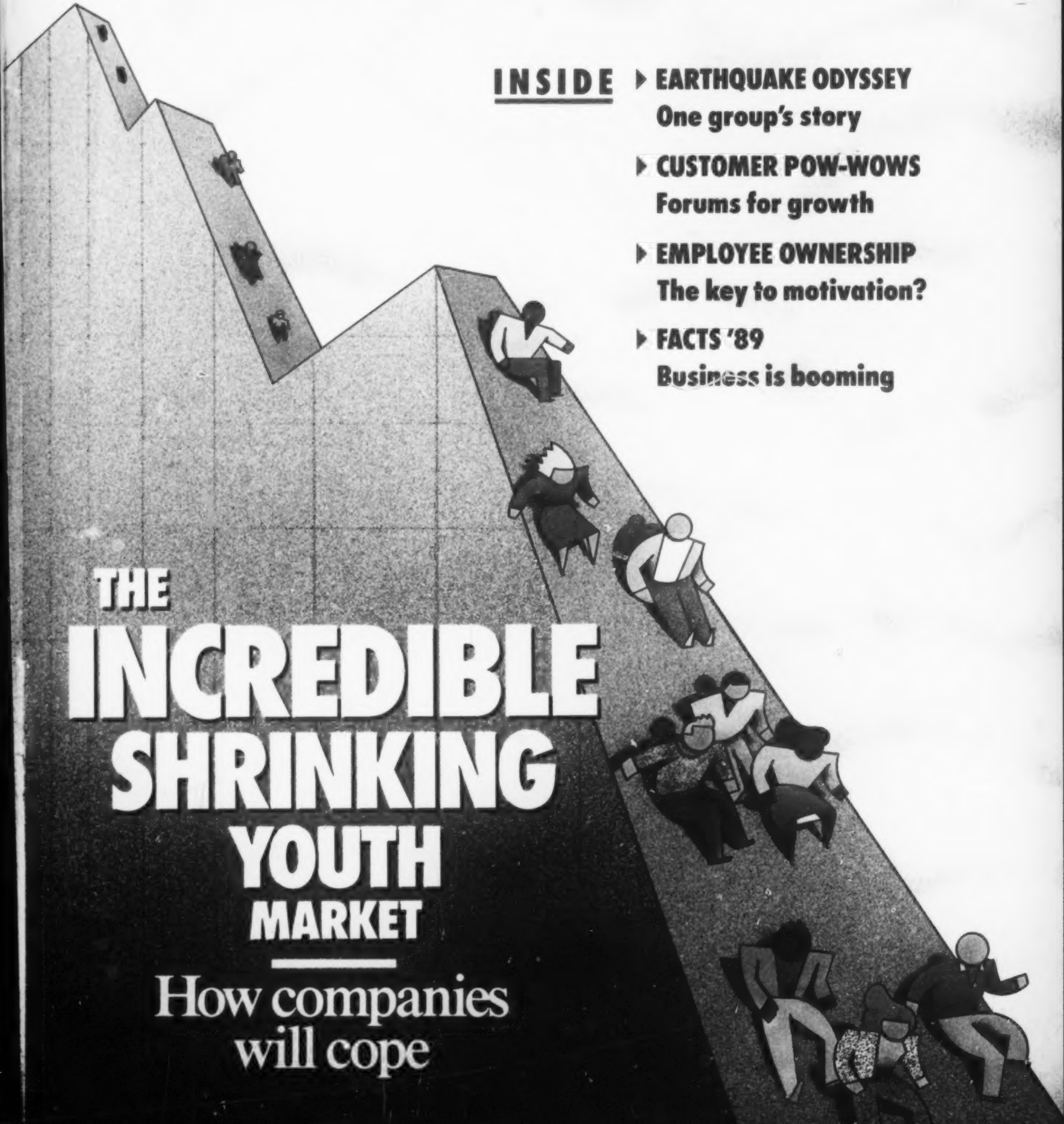

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THE INCREDIBLE SHRINKING YOUTH MARKET

How companies will cope

A BILL PUBLICATION

DECEMBER 1989

INCENTIVE

MANAGING AND MARKETING THROUGH MOTIVATION

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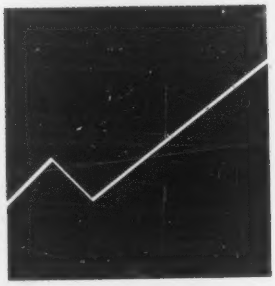

SURVEY

FACTS 1989

Incentive spending is the strongest it's been in years, thanks to renewed faith in sales motivation and growing use of awards for nonsales employees.

Incentive spending is at its strongest since 1985. Overall motivation expenditures—including sales, dealer and consumer incentives and business gifts—were up about 7.6 percent this year. Sales incentives set the pace, running an estimated 9.9 percent ahead of last year—50 percent faster than the 6.5 percent growth in the rest of the field.

The estimated total of all motivation expenditures in 1989 is $15.83 billion. Sales incentive spending accounts for 33 percent of that figure, totaling an estimated $5.23 billion for 1989.

The sales incentive category maintained its lead despite relatively bland performance this year. Sales yields fell for the second straight year, to an average of 18.7 percent—down a point from 1988 levels. And sales force participation lagged: 37 percent qualified, compared with 42 percent a year ago. On the plus side, average total program cost came to 13 percent of incremental sales, a two-point decrease from the year before; the median held steady at 10 percent.

Dealer incentive usage this year expanded by only about 6.2 percent, in spite of generally encouraging results in users' programs. Sales increases achieved through promotions averaged 16.6 percent, compared with last year's 16.2 percent. The average cost was 10.7 percent of incremental sales gains, compared with a high of 14.7 percent a year ago. Median cost, unchanged for five years, was 10 percent.

A negative element was dealer participation: Acceptance of merchandise offers dropped to 52 percent from 54 percent, while those participating in travel programs dropped to 49 percent from 52 percent a year ago.

Incentive travel showed strength in both sales and dealer programs. Sales incentive travel was up 11.2 percent, compared with a 9.4 percent increase in merchandise expenditures. In dealer incentives, travel gained 7.1 percent versus merchandise's 5.7 percent. Overall, travel gained a healthy 9.5 percent to reach $2.4 billion.

Consumer promotion fared better in 1989 than it did last year, when it managed only a 4.1 percent rise. The present estimate shows product promoters spending 6.3 percent more, while retailers outspent last year by 8.8 percent—for an overall growth of 7 percent.

Little of that growth was supplied by food manufacturers. They are by far the largest users but only increased their efforts by 3.9 percent. The second-ranked industry, toiletries and cosmetics, contributed a 9.9 percent expansion in consumer promotion. Other strong reports come from feed and fertilizer firms, auto parts, office equipment, and paper products.

Manufacturers and distributors of consumer products did well with their 1989 incentive promotions. The survey found an average sales increase during a promotion of 19 percent, compared with the 16.1 percent average reported

THE INCENTIVE FIELD AT A GLANCE

ALL FIGURES IN THOUSANDS

	1989 EXPENDITURES	1988 EXPENDITURES	% CHANGE
SALES INCENTIVES	$5,230,226	$4,760,479	+ 9.9%
Merchandise	3,824,647	3,496,695	+ 9.4%
Travel	1,405,579	1,263,784	+11.2%
DEALER INCENTIVES	$2,863,828	$2,697,004	+ 6.2%
Merchandise	1,868,804	1,768,352	+ 5.7%
Travel	995,024	928,652	+ 7.1%
MERCHANDISE TOTAL	$5,693,451	$5,265,047	+ 8.1%
TRAVEL TOTAL	$2,400,603	$2,192,436	+ 9.5%
TRADE TOTAL	$8,094,054	$7,457,483	+ 8.5%
BUSINESS GIFTS	$1,635,252	$1,551,324	+ 5.4%
CONSUMER PREMIUMS			
Product promotion:	$4,367,255	$4,108,091	+ 6.3%
•Mail-in offers	2,230,496	2,096,579	+ 6.4%
•Direct premiums	2,136,759	2,011,512	+ 6.2%
Retail promotion:	$1,735,821	$1,594,810	+ 8.8%
•Sweepstakes, games	206,349	198,032	+ 4.2%
•Direct, trading stamps	1,529,472	1,396,778	+ 9.5%
CONSUMER TOTAL	$6,103,076	$5,702,901	+ 7.0%
TOTAL USAGE	**$15,832,382**	**$14,711,708**	+ 7.6%

Does not include nonsales employee spending, which will be included in a future survey.

INCENTIVE USAGE BY INDUSTRY

ALL FIGURES IN THOUSANDS

INDUSTRY	1989 EXPENDITURES	%CHANGE FROM 1988
Food products	$1,629,594	+ 4.6%
Toiletries & cosmetics	1,074,574	+ 11.8
Auto parts, tires, accessories	895,326	+ 4.4
Insurance	729,911	+ 6.6
Automobiles & trucks	505,331	+ 13.6
Electronics, radio, TV	499,504	+ 4.8
Building materials	371,000	+ 9.7
Office equipment	320,856	+ 11.5
Heating & air conditioning	311,309	+ 5.2
Petroleum products	310,007	+ 5.1
Publishers, printers, broadcasters	305,489	+ 6.0
Beer, ale, soft drinks	256,166	+ 6.3
Detergents & cleansers	237,959	+ 6.0
Electric appliances	227,363	+ 6.1
Feed, fertilizer, farm supplies	224,382	+ 15.0
Banks, savings & loans	219,240	+ 4.1
Farm equipment	217,253	+ 0.4
Housewares & home furnishings	209,235	- 1.0
Pharmaceuticals	201,877	+ 5.3
Machinery & supplies	174,394	+ 11.0
Electrical & lighting equipment	131,159	+ 3.5
Industrial chemicals	119,139	+ 6.3
Furniture & floor coverings	95,323	+ 1.2
Paper products & packaging	89,353	+ 5.6
Paints & varnishes	70,382	+ 0.1
Apparel	62,447	+ 3.4
Sporting goods & toys	55,750	- 0.1
Hardware	35,625	+ 0.8
Public utilities	28,305	+ 4.4
Miscellaneous manufacturers	902,297	+ 11.2
Miscellaneous services	1,015,479	+ 8.1
Wholesalers & distributors	1,499,270	+ 9.7
Retailers	2,807,083	+ 8.4

last year. This marks a return to precedent—the figure ranged from 18 percent to 20 percent over the four previous years.

Those who count on incentives to gain display space found success. Where last year's respondents indicated a display-use average of 49 percent, the 1989 survey indicated that 58 percent of retailers use the materials. The increase averages 31 percent over non-promotion periods.

Retailers increased their incentive efforts by 8.8 percent, compared with the rather anemic 2.7 percent growth of 1988. Direct premiums—including continuity and tape-redemption plans in the grocery field—grew by 9.5 percent, while the smaller category of sweepstakes and games gained 4.2 percent. In the grocery industry, a large decline in the use of trading stamps was more than offset by heavy usage of other promotion types. In sales incentive activity, retailers in all industries accelerated by 8.9 percent, spending over $758 million to motivate salespeople.

Marketers' expenditures for business gifts, which trailed the rest of the field in 1988 with 4.3 percent growth, are doing a bit better this year—but still lag with a 5.4 percent estimated increase.

Against the 7.6 percent increase in overall incentive spending, a number of industries stand out this year as considerably more aggressive than the average. Makers of feed, fertilizer and farm supplies top the list with a 15 percent expansion. This is in sharp contrast with 1988, when they showed a slight decline in usage. In the feed industry's largest incentive area, dealer motivation, users added a whopping 19.3 percent to budgets. They reported a 15.8 percent gain in sales incentives and an 11.3 percent consumer promotion spending rise.

Car and truck manufacturers said they were spending 13.6 percent more. While concentrating their consumer promotion on price cuts that they call "incentives," they put strong emphasis on merchandise and travel incentives for salespeople (up 18.7 percent) and dealers (up 11.3 percent).

The other big spenders this year are toiletries and cosmetics, up 11.8 percent; office equipment, up 11.5 percent, and machinery and supplies, up 11.0 percent.

Distributors and wholesalers, a broad category representing portions of all industries, were somewhat more aggressive than the average of manufacturers, increasing incentive expenditures by 9.7 percent. The growth covers all areas, with dealer incentives adding 10.4 percent, sales incentives, 9.0 percent, and consumer premiums, 8.5 percent. And these businesses estimate that they are buying 13.1 percent more gifts.

Six industries have not joined the fun: Two decreased incentive spending slightly, and four increased expenditures by minuscule percentages. Posting minus figures were housewares and home furnishings and sporting goods and toys. Those that increased by less than the inflation rate were farm equipment, furniture and floor coverings, paints and varnishes, and hardware—none with more than a 1.2 percent gain.

This year, **Incentive** conducted its second detailed survey of nonsales employee motivation—a major growth area. While the available data does not permit estimates of overall activity, some patterns are emerging.

About 59 percent of this year's respondents offer cash awards to employees. Three categories of merchandise—selected items, catalogue choices and plaques—are used by 46 percent, 32 percent and 25 percent, respectively. Twenty-two percent use travel. The percentages total well over 100 because of multiple usage in the same programs. Merchandise expenditures rose 27.5 percent, while cash awards are up 19.8 percent and travel is up 6.7 percent. (Cash payments do not figure in the other incentive survey reports.)

Sales Incentives

Spending is strong despite lower sales increases and a decline in participation.

Sales motivation is usually the fastest-growing segment of the incentive field. But it is unusual for major growth to take place without participation by many of the top players.

The largest industry user of sales incentives—insurance—added only 8.1 percent, less than the average, to its expenditures. The third- and fourth-largest users—auto parts and accessories, and electronics—also held back.

Industrial chemicals, office equipment, automobiles and trucks, building materials, and feed, fertilizer and farm supplies all advanced by more than 15 percent, compensating for the slower pace of some larger users. And toiletries and cosmetics, the second-ranked user, gained 14.6 percent.

Among the other tabulated industries, only furniture and floor coverings reduced its sales incentive budget—by 3.3 percent.

Of $5.23 billion in expenditures, about $3.8 billion went for merchandise, and the remaining $1.4 billion was spent on incentive travel.

With the reality of lower sales growth and less participation, one might expect some users to be unhappy with the year's experience. But nothing in the survey responses or in individual comments points to major doubts. And expanding budgets indicate that users still view sales incentives as tools with enormous power.

Here is how the individual industries moved this year in their expenditures:

Apparel	+12.8%
Auto parts, tires & accessories	+ 2.0%
Automobiles & trucks	+18.7%
Banks & savings and loans	+ 1.8%
Beer, ale & soft drinks	+ 5.7%
Building materials	+17.0%
Detergents & cleansers	+ 4.7%
Electric appliances	+ 4.6%
Electrical & lighting equipment	+ 4.5%
Electronics, radio & TV	+ 6.5%
Farm equipment	+ 6.6%
Feed, fertilizer & farm supplies	+15.8%
Food products	+12.7%
Furniture & floor coverings	– 3.3%
Hardware	+ 3.1%
Heating & air-conditioning	+11.8%
Housewares & home furnishings	+ 4.4%
Industrial chemicals	+21.5%
Insurance	+ 8.1%
Machinery & supplies	+14.6%
Office equipment	+18.7%
Paints & varnishes	+ 3.0%
Paper products & packaging	+ 5.7%
Petroleum products	+ 5.1%
Pharmaceuticals	+ 9.0%
Public utilities	+ 6.3%
Publishers, printers, broadcasters	+ 6.7%
Sporting goods & toys	+ 3.4%
Toiletries & cosmetics	+14.6%
Distributors & wholesalers	+ 9.0%
Retailers	+ 8.9%

While the surveys estimate only expenditures for merchandise and travel, respondents were also asked about cash awards this year. A minority of sales executives has long favored cash. Giving away money is relatively simple and, theoretically, trouble-free.

The survey questionnaire asked: "In otherwise identical incentive campaigns (and assuming the sales force is adequately compensated), which type of award do you find yields the best results?"

Respondents voted this way: travel, 40 percent; merchandise, 39 percent, and cash, 21 percent. In their accompanying comments, many cited the obvious advantages of noncash awards: that they are not "lost" by mixing them with normal earnings income, that they can be dramatized far more effectively and that they serve to provide visible recognition—the ultimate motivator. An important advantage, too, is the greater value that can be offered through merchandise or travel for the same expenditure. Users generally purchase noncash awards at wholesale prices.

Other emphasized values included easier involvement of families, the ability to tie awards to more imaginative themes and the element of fun in the promotion. Proponents of travel also pointed to the valuable rapport that often develops between management and the sales force during a trip —or with dealers, when both salespeople and dealers are on the same group trip.

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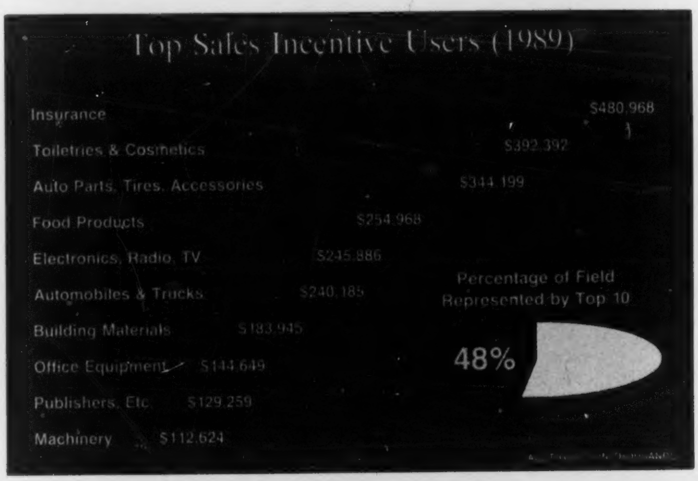
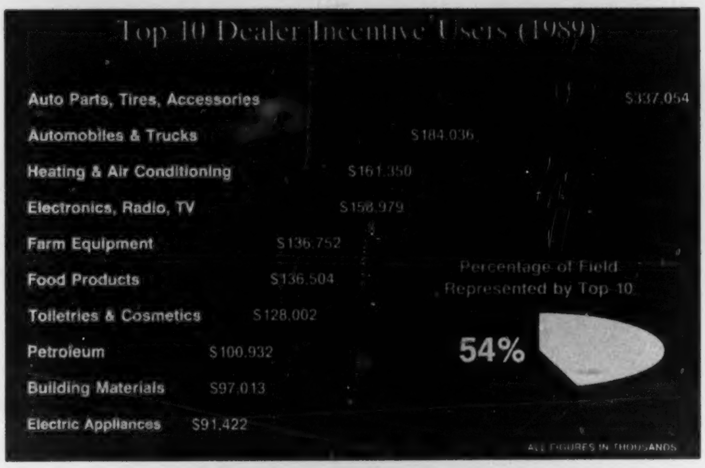
Many respondents cited the advantages of non-cash awards: visible recognition and no confusion with regular earnings income.





Dealer Incentives

With participation dropping off, marketers hold the line on dealer motivation spending.

In a year of acceleration in incentive promotion, dealer motivation programs were the only major type that did not grow more this year than in 1988. The total of all spending rose by an estimated 7.6 percent, compared with a 5.3 percent growth last year. But dealer growth was 6.2 percent, compared with 6.3 percent a year ago.

In **Incentive**'s 1987 survey, more than 60 percent of respondents said they were increasing their expenditures for dealer promotion. Last year, the figure dropped to 44 percent, and this year's study found about 38 percent increasing their budgets. Few spent less, but most stood pat with previous expenditure levels.

The average unit cost of merchandise awards dropped to $195 from last year's $228. The median was steady at just $50. The travel average also declined by almost $100, from $2,221, but the median increased to $1,850 from $1,775.

Only nine industries increased dealer promotion by more than the overall 6.2 percent average. Only two of those were among the top 10 users: automobiles and trucks, and toiletries and cosmetics.

Here is how tabulated industries stacked up compared with 1988:

Apparel	+ 2.8%
Auto parts, tires & accessories	+ 5.1%
Automobiles & trucks	+11.3%
Banks & savings and loans	+ 3.0%
Beer, ale & soft drinks	+ [illegible].1%
Building materials	+ 3.5%
Detergents & cleansers	+ 9.3%
Electric appliances	+ 9.1%
Electrical & lighting equipment	+ 6.5%
Electronics, radio & TV	+ 4.9%
Farm equipment	− 1.2%
Feed, fertiiizer & farm supplies	+19.3%
Food products	− 3.3%
Furniture & floor coverings	+ 3.1%
Hardware	+ 3.1%
Heating & air-conditioning	+ 2.1%
Housewares & home furnishings	+ 1.8%
Industrial chemicals	− 1.4%
Insurance	− 3.6%
Machinery & supplies	+ 6.5%
Office equipment	+ 5.4%
Paints & varnishes	+ 2.5%
Paper products & packaging	+ 5.2%
Petroleum products	+ 4.8%
Pharmaceuticals	+ 5.6%
Public utilities	+ 4.6%
Publishers, printers & broadcasters	+10.2%
Sporting goods & toys	+ 1.7%
Toiletries & cosmetics	+14.6%
Distributors & wholesalers	+10.4%
Retailers	+ 8.0%

Total expenditures estimated for this year were $2.86 billion: more than $1.8 billion for merchandise and not quite $1 billion for travel awards.

More users in this year's survey reported aiming their incentives at distributors and wholesalers than in most past studies. Compared with a usual range of 48 to 50 percent, 57 percent of these marketers said they direct programs toward this group. The survey found that retailers were targeted in 34 percent of cases, commercial or industrial dealers in 22 percent, and service contractors, 11 percent.

Means of evaluating a dealer incentive promotion vary greatly. Comparisons are most often made with previous periods, usually the prior year. But what do you count and compare? This year's reports showed that half of the companies calculate dealer orders received.

Three other benchmarks are used by substantial numbers as well. One-third measure on the basis of factory shipments. Another 31 percent base their evaluations on the number of new accounts obtained during the course of the program. Twenty-eight percent of respondents base measurements on sales-force reports—which presumably include parts of the other criteria.

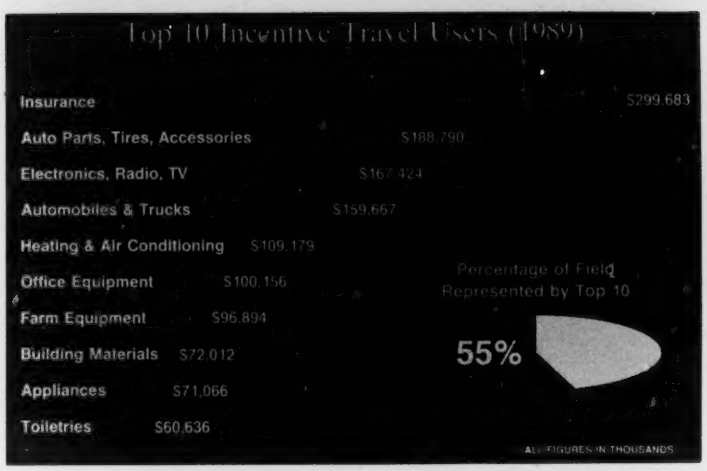
Incentive Travel

Spending is up, but results are off this year.

Incentive travel enjoyed a relative boom in spending this year, but that was tempered by a decline in sales effectiveness. The total tab this year comes to $2.4 billion, with about $1.4 billion going for sales-force motivation and the rest for dealers.

Users told **Incentive** that they were getting less for their money. Travel-generated sales increases this year were estimated at just 16 percent. That compares with 18.4 percent reported last year and 20.8 percent in 1987.

The sales-increase report is lower than that found in both the sales and dealer incentive reports this year.



The difference suggests that programs based largely on merchandise may be outrunning travel campaigns in sales effectiveness.

As in the separate sales and dealer surveys, participation is down somewhat. This year's travel survey shows an average qualification level of 34 percent of eligible people, compared with 37 percent a year ago.

Despite the substantial growth in travel usage, only four of the top 10 user industries increased spending significantly. The largest move was made by office equipment, last year's seventh-ranked user, which moved up to sixth with a 16.3 percent increase. The fourth-ranked automobile and truck industry added 10.8 percent to its incentive travel outlays. Ninth-ranked electric appliances rose 10.2 percent, and 10th-ranked toiletries was up 10.3 percent.

Here is the way all the tabulated industries estimated their spending for 1989:

Apparel	+12.0%
Auto parts, tires & accessories	+ 7.2%
Automobiles & trucks	+10.8%
Banks & savings and loans	+ 9.5%
Beer, ale & soft drinks	+ 6.8%
Building materials	+ 9.7%
Detergents & cleansers	+ 2.5%
Electric appliances	+10.2%
Electrical & lighting equipment	+ 5.9%
Electronics, radio & TV	+ 7.8%
Farm equipment	+ 3.1%
Feed, fertilizer & farm supplies	+16.0%
Food products	+ 0.0%
Furniture & floor coverings	+ 6.4%
Hardware	+ 3.0%
Heating & air-conditioning	+ 5.9%
Housewares & home furnishings	+ 3.9%
Industrial chemicals	+11.9%
Insurance	+ 4.9%
Machinery & supplies	+ 9.9%
Office equipment	+16.3%
Paints & varnishes	+ 2.7%
Paper products & packaging	+ 5.2%
Petroleum products	+ 3.7%
Pharmaceuticals	+10.9%
Public utilities	+ 6.7%
Publishers, printers & broadcasters	+10.5%
Sporting goods & toys	+ 2.9%
Toiletries & cosmetics	+10.3%
Distributors & wholesalers	+ 7.6%
Retailers	+14.4%

With negative findings in sales results and participation, it is some comfort to see relatively good news in the cost area. The average per-person trip cost this year is only 2 percent higher than a year ago—$1,650, compared with $1,611—in contrast with the rapid escalation of some recent years. However, the median rose more—to $1,500 from $1,300. The good news is in the incremental sales figures. The median cost on that basis fell to 7 percent of added sales from last year's 8 percent.

The profile of the trip itself changed slightly this year. About 62 percent of users favored group trips, compared with 64 percent last year. Group size was smaller: 124 people on average, with a median of 50, compared with a 131 average and 70 median in 1988. Five nights remained the favored length.

Consumer Incentives

Consumer promotion rebounds after a dismal 1988—but that's with no thanks to food makers.

After standing still for most industries last year, consumer promotion revived in 1989 with a 7 percent increase in spending.

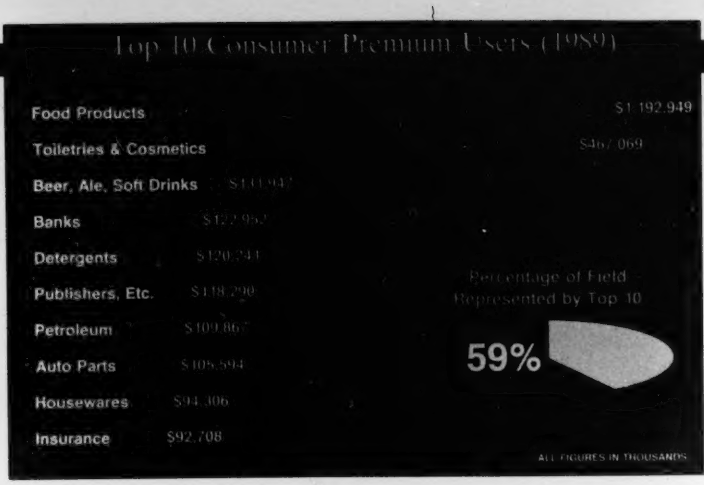
With inflation at 4.4 percent in 1988, consumer promotion registered a 4.1 percent increase over the year before—not enough to cover rising costs. Product promotion ran about 4.7 percent ahead, while retailers' efforts gained only 2.7 percent. In 1989, retailers led the way, expanding by 8.8 percent; manufacturers' product promotions added 6.3 percent.

Consumer incentive activity this year totaled an estimated $6.1 billion. Product promoters spent $4.4 billion, and retailers spent $1.7 billion.

Food manufacturers, who account for more than a quarter of all consumer incentives, did not pull their weight this year but were somewhat more active than in 1988. Last year, food promotions rose only 2.3 percent in the estimates; for 1989, they increased by 3.9 percent. In the front-running food industry, that increase amounts to almost $45 million.

The big spenders in terms of year-to-year increases were auto parts, feed, fertilizer and farm supplies, and toiletries and cosmetics.

Consumer promotion declined in eight industries, with apparel and paint and varnish marketers both cutting more than 6 percent off their budgets. Other industries that pulled back: electrical and lighting equipment, farm equipment, hardware, housewares and home furnishings, machinery and supplies, and sporting goods and toys. ⟶


Top 10 Consumer Premium Users (1989)

Automobile manufacturers, whose price-cutting spree had reduced consumer incentive spending by 53 percent since 1985, showed some increase this year—up 3.5 percent.

The 1988-to-1989 changes in consumer promotion by all the tabulated industries were as follows:

Apparel	– 6.7%
Auto parts, tires & accessories	+ 8.3%
Automobiles & trucks	+ 3.5%
Banks & savings and loans	+ 5.1%
Beer, ale & soft drinks	+ 6.0%
Building materials	+ 4.9%
Detergents & cleansers	+ 5.0%
Electric appliances	+ 5.9%
Electrical & lighting equipment	– 5.9%
Electronics, radio & TV	+ 3.2%
Farm equipment	– 4.6%
Feed, fertilizer & farm supplies	+11.3%
Food products	+ 3.9%
Furniture & floor coverings	+ 2.0%
Hardware	– 3.5%
Heating & air-conditioning	+ 2.9%
Housewares & home furnishings	– 4.1%
Industrial chemicals	+ 6.6%
Insurance	+ 7.3%
Machinery & supplies	– 0.3%
Office equipment	+ 7.6%
Paints & varnishes	– 6.3%
Paper products & packaging	+ 7.1%
Petroleum products	+ 5.9%
Pharmaceuticals	+ 6.3%
Public utilities	+ 3.0%
Publishers, printers, broadcasters	+ 5.0%
Sporting goods & toys	– 4.2%
Toiletries & cosmetics	+ 9.9%
Distributors & wholesalers	+ 8.5%
Retailers	+ 8.8%

Direct premiums as a whole were up 6.2 percent, with near packs up 6.5 percent and factory packs up only 3.8 percent. The coupon plan, spurred by new frequent-buyer promotions, rose by an estimated 9.4 percent.

Mail-in offers, which account for just over half the promotions of product marketers, increased this year by 6.4 percent. Within the mail-in group, self-liquidators increased most—7.2 percent, compared with 4.9 percent for free mail-in offers and 2.9 percent for sweepstakes.

Here, in thousands of dollars, are the estimates for 1989 spending in the six consumer categories:

Self-liquidators	$1,306,287
Free mail-ins	604,584
Sweepstakes & contests	319,625
Near-pack premiums	1,091,808
Factory packs	641,285
Coupon plans	403,666

User evaluation of consumer promotions improved from 1988 when the average estimated sales result dropped to a five-year low of 16.1 percent. This year's survey reported sales gains averaging 19 percent, more in line with previous experience.

Response to mail-in offers held fairly steady overall, with one significant change. In past years, the average response per 1,000 showed a distinct edge for lower-priced self-liquidators over those at $10 or more. This year, the average showed a slight advantage in response for the higher-priced offers. Returns per 1,000 ranged from four to 10 for low-priced liquidators and from six to 10 at higher prices, depending upon the medium measured. Print media did best for low-priced offers, while print and store displays pulled about equally for high-priced premiums.

Response to free-in-the-mail offers was stronger, ranging from 13 to 27 per 1,000, with the highest returns reported for broadcast offers, although print was close behind. Users reported that print advertising of free offers drew more than double the response of self-liquidators at either price level.

Retail use of trading stamps declined sharply to $265 million from $325 million last year. Replacing the stamp activity were continuity promotions, tape-redemption plans and a variety of frequent-buyer programs. Although the **Incentive** study did not measure frequent-buyer program use, a survey early this year by Cornell University for the Association of Retail Marketing Services found that supermarket operators planned a 23.5 percent increase in such promotions.

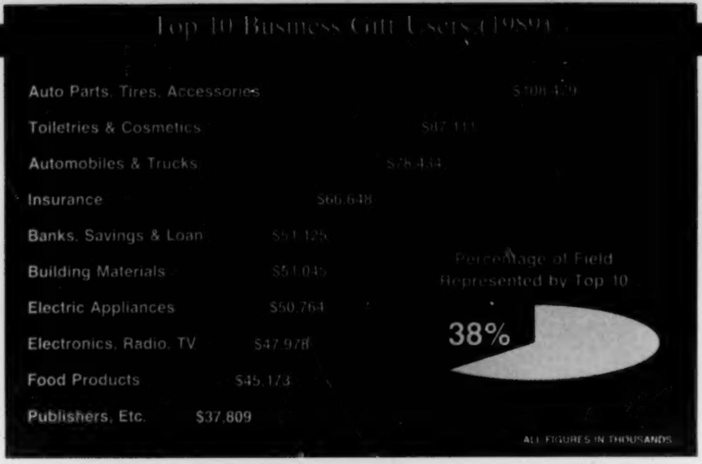
In the use of sweepstakes and games by retailers, supermarkets dragged their feet a bit, with their game promotions off by an estimated 10.7 percent. The loss was made up by heavier sweepstakes activity in other retail industries.

Business Gifts

Both the cost and number of gifts are up, particularly in the food and insurance industries.

American business is giving more gifts this year—but not many more, as business gifts remain the slowest-growth portion of the incentive field for the third year in a row. The total estimate for 1989 spending is $1.64 billion. The increase of 5.4 percent was greater than a survey group estimated earlier this year; at that time, it projected a 4.7 percent rise in their gift budgets.

Although the median expenditure for a gift has held firm at $20 for three years, the average—reflecting more high-priced selections at the top—rose from $56 to $75 and now to $88. Twenty-seven percent of executives in the earlier survey reported spending more per gift than they had a year ago. Meanwhile, gift givers spread the good will a little farther: The median number of gifts per year,



which had been unchanged at 100 for several years, jumped this year to 125 recipients.

Only two industries showed increases in gift buying that ran well ahead of the average: food manufacturers, up 8.1 percent, and insurance companies, up 11.9 percent. Retailers were also in a gift-buying mood, with a 7.0 percent rise over last year, and distributors and wholesalers expanded gift budgets by 13.1 percent. Seven industries reduced their gift spending.

Here is the overall business gift trend reported this year:

Apparel	+ 3.6%
Auto parts, tires & accessories	+ 6.1%
Automobiles & trucks	+ 5.2%
Banks & savings and loans	+ 3.6%
Beer, ale & soft drinks	+ 5.4%
Building materials	+ 2.0%
Detergents & cleansers	+ 4.5%
Electric appliances	+ 2.4%
Electrical & lighting equipment	+ 1.3%
Electronics, radio & TV	− 2.3%
Farm equipment	− 5.1%
Feed, fertilizer & farm supplies	+ 6.1%
Food products	+ 8.1%
Furniture & floor coverings	− 3.4%
Hardware	− 4.1%
Heating & air-conditioning	+ 3.1%
Housewares & home furnishings	− 6.2%
Industrial chemicals	+ 1.2%
Insurance	+11.9%
Machinery & supplies	+ 6.3%
Office equipment	+ 3.8%
Paints & varnishes	− 3.0%
Paper products & packaging	+ 1.4%
Petroleum products	+ 1.8%
Pharmaceuticals	− 4.7%
Public utilities	+ 2.6%
Publishers, printers, broadcasters	+ 5.0%
Sporting goods & toys	+ 1.0%
Toiletries & cosmetics	+ 5.4%
Distributors & wholesalers	+13.1%
Retailers	+ 7.0%

A trend toward more sales-oriented use of business gifts—with a purpose much better defined than traditional "thanks" and "good will"—continued this year. In such situations, users insist that the gift be of modest value. In 63 percent of cases, it has a company imprint for reminder value, the hallmark of the advertising specialty.

About 54 percent of surveyed executives said their gifts are usually given by salespeople, often as door-openers or as simple occasion-makers for an extra sales call. In 31 percent of cases, an executive presents the gifts.

Not too many years ago, 85 to 90 percent of business gifts were given at Christmas time. That is still the primary occasion—but now for only 70 percent of users. The rest of the gift-giving takes place on controlled sales-related occasions: a routine sales call, closing of a sale, plant or office visit, company customer seminar, product introduction and other times when competition with many other business gifts in the same period is not a factor.

Employee Awards

Explosive growth marks this category, as more and more companies look to enhance productivity.

The use of employee incentive awards exploded this year, according to **Incentive** surveys. In the first study of such awards last year, the magazine found users spending an average of 8.4 percent more for awards than they had in 1987. That modest rise pales next to the findings of the most recent survey of employee incentive users, which found award programs growing at an 18.9 percent rate.

This year, employee awards also were included in the broader FACTS studies, which question many executives not previously known as employee-award users. In these surveys, about one-fourth of all respondents gave figures on expenditures for nonsales employee incentives—and their year-to-year increase reached 44 percent. Clearly, many new companies have joined the trend toward productivity-enhancing incentives.

Office productivity is the most common focus of these programs, according to 49 percent of respondents. About 40 percent apply incentives to plant productivity. Other major objectives are quality control (29 percent), suggestions (28 percent) and safety (27 percent). Lesser emphasis is given to length of service awards (16 percent) and attendance (15 percent). Other objectives not specified are targeted by 41 percent. As the percentage total shows, the average company uses employee awards to do about two and one-half different jobs.

Sixty-four percent of respondents conduct year-round award programs for employees, and 46 percent of the eligible people earn awards. The cost of employee awards averages $346 among these companies, although the median is a much lower $75.

By frequency of mention, tangible awards were given in 45 percent of cases: selected merchandise items, 20 percent; merchandise catalogue choices, 11 percent, and plaques, 14 percent. Cash was awarded by 26 percent. Travel awards accounted for 10 percent, and honorary titles are given to 4 percent. The remaining 15 percent for "other" awards included

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company dinners, entertainment, time off, shares of company stock and the like.

Office workers are the primary targets for major productivity efforts among these users. On a frequency basis, office employees are the subject of 41 percent of programs by the reporting companies. Production workers are targeted by 30 percent and sales-support personnel by 29 percent.

The average survey report showed that 57 percent of a company's employees are affected by the incentive plan. More growth in incentive efforts may be seen in the years ahead as new groups of employees are brought into these motivational campaigns. ☐

MANUFACTURING INDUSTRIES

	EXPENDITURES 1989		EXPENDITURES 1988	
■ APPAREL	**$62,447,000**	**+ 3.4%**	**$60,399,000**	**+ 6.2%**
▶ TRADE INCENTIVES				
Sales force merchandise	$ 19,211,000	+13.1%	$ 16,986,000	+16.5%
travel	$ 4,907,000	+11.8%	$ 4,389,000	+15.4%
Dealer merchandise	$ 8,127,000	+ 2.2%	$ 7,952,000	- 2.1%
travel	$ 471,000	+14.0%	$ 413,000	- 3.7%
▶ BUSINESS GIFTS	$ 11,297,000	+ 3.6%	$ 10,904,000	+ 5.6%
▶ CONSUMER PREMIUMS				
Mail-in promotions	$ 8,586,000	- 6.2%	$ 9,154,000	+ 7.1%
Other premiums	$ 9,848,000	- 7.1%	$ 10,601,000	- 4.1%
■ AUTO PARTS, TIRES, ACCESSORIES	**$895,326,000**	**+ 4.4%**	**$857,892,000**	**+ 14.1%**
▶ TRADE INCENTIVES				
Sales force merchandise	$ 237,135,000	+ 1.0%	$ 234,787,000	+13.2%
travel	$ 107,064,000	+ 4.4%	$ 102,552,000	+14.0%
Dealer merchandise	$ 255,328,000	+ 3.3%	$ 247,171,000	+26.9%
travel	$ 81,726,000	+11.0%	$ 73,627,000	+14.5%
▶ BUSINESS GIFTS	$ 108,479,000	+ 6.1%	$ 102,242,000	+ 0.6%
▶ CONSUMER PREMIUMS				
Mail-in promotions	$ 80,412,000	+ 8.6%	$ 74,044,000	+ 5.4%
Other premiums	$ 25,182,000	+ 7.3%	$ 23,469,000	+ 0.8%
■ AUTOMOBILES & TRUCKS	**$505,331,000**	**+13.6%**	**$444,780,000**	**+ 9.2%**
▶ TRADE INCENTIVES				
Sales force merchandise	$ 209,086,000	+18.8%	$ 175,998,000	+15.9%
travel	$ 31,099,000	+18.1%	$ 26,333,000	+ 1.4%
Dealer merchandise	$ 55,468,000	+16.6%	$ 47,571,000	+ 0.6%
travel	$ 128,568,000	+ 9.2%	$ 117,736,000	+ 5.9%
▶ BUSINESS GIFTS	$ 78,434,000	+ 5.2%	$ 74,557,000	+ 9.3%
▶ CONSUMER PREMIUMS				
Mail-in promotions	$ 1,181,000	- 4.0%	$ 1,230,000	- 0.9%
Other premiums	$ 1,495,000	+10.3%	$ 1,355,000	- 2.2%
■ BEER, ALE & SOFT DRINKS	**$256,166,000**	**+ 6.3%**	**$241,017,000**	**+ 10.0%**
▶ TRADE INCENTIVES				
Sales force merchandise	$ 65,025,000	+ 5.6%	$ 61,577,000	+21.7%
travel	$ 13,157,000	+ 6.5%	$ 12,354,000	+ 0.9%
Dealer merchandise	$ 28,375,000	+ 9.5%	$ 25,913,000	+ 2.4%
travel	$ 6,383,000	+ 7.5%	$ 5,938,000	+ 3.3%
▶ BUSINESS GIFTS	$ 11,279,000	+ 5.4%	$ 10,701,000	+12.5%
▶ CONSUMER PREMIUMS				
Mail-in promotions	$ 82,552,000	+ 8.4%	$ 76,155,000	+ 9.2%
Other premiums	$ 49,395,000	+ 2.1%	$ 48,379,000	+ 5.1%

	EXPENDITURES 1989		EXPENDITURES 1988	
■ **BUILDING MATERIALS**	**$371,000,000**	**+ 9.7%**	**$338,162000**	**+ 6.1%**
▶ TRADE INCENTIVES				
Sales force merchandise	$ 144,309,000	+18.3%	$ 121,986,000	+ 5.4%
travel	$ 39,636,000	+12.5%	$ 35,232,000	+ 2.3%
Dealer merchandise	$ 64,637,000	+ 2.1%	$ 63,308,000	+ 7.2%
travel	$ 32,376,000	+ 6.4%	$ 30,429,000	+ 4.5%
▶ BUSINESS GIFTS	$ 51,045,000	+ 2.0%	$ 50,044,000	+ 9.1%
▶ CONSUMER PREMIUMS				
Mail-in promotions	$ 16,033,000	+ 4.7%	$ 15,313,000	+15.8%
Other premiums	$ 22,964,000	+ 5.1%	$ 21,850,000	+ 3.4%
■ **DETERGENTS & CLEANSERS**	**$237,959,000**	**+ 6.0%**	**$224,550,000**	**+ 5.1%**
▶ TRADE INCENTIVES				
Sales force merchandise	$ 70,255,000	+ 6.4%	$ 66,029,000	+ 2.5%
travel	$ 3,003,000	+ 1.2%	$ 2,967,000	+ 1.4%
Dealer merchandise	$ 33,577,000	+ 9.4%	$ 30,692,000	+ 2.9%
travel	$ 822,000	+ 7.3%	$ 766,000	+27.4%
▶ BUSINESS GIFTS	$ 10,061,000	+ 4.5%	$ 9,628,000	+13.9%
▶ CONSUMER PREMIUMS				
Mail-in promotions	$ 78,319,000	+ 5.5%	$ 74,236,000	+ 7.1%
Other premiums	$ 41,922,000	+ 4.2%	$ 40,232,000	+ 5.3%
■ **ELECTRIC APPLIANCES**	**$227,363,000**	**+ 6.1%**	**$214,384,000**	**+ 3.2%**
▶ TRADE INCENTIVES				
Sales force merchandise	$ 33,982,000	+ 5.5%	$ 32,210,000	+ 6.4%
travel	$ 13,329,000	+ 2.2%	$ 13,042,000	- 4.2%
Dealer merchandise	$ 33,685,000	+ 4.1%	$ 32,358,000	+ 3.9%
travel	$ 57,737,000	+12.2%	$ 51,459,000	+ 7.1%
▶ BUSINESS GIFTS	$ 50,764,000	+ 2.4%	$ 49,574,000	+ 5.0%
▶ CONSUMER PREMIUMS				
Mail-in promotions	$ 20,081,000	+ 5.2%	$ 19,088,000	- 8.7%
Other premiums	$ 17,785,000	+ 6.8%	$ 16,653,000	+ 1.2%
■ **ELECTRICAL & LIGHTING EQUIPMENT**	**$131,159,000**	**+ 3.5%**	**$126,769,000**	**- 0.4%**
▶ TRADE INCENTIVES				
Sales force merchandise	$ 22,476,000	+ 4.2%	$ 21,570,000	+ 7.0%
travel	$ 9,024,000	+ 5.4%	$ 8,562,000	- 8.4%
Dealer merchandise	$ 40,894,000	+ 6.6%	$ 38,362,000	- 9.2%
travel	$ 15,866,000	+ 6.2%	$ 14,940,000	+10.0%
▶ BUSINESS GIFTS	$ 29,922,000	+ 1.3%	$ 29,538,000	+ 3.2%
▶ CONSUMER PREMIUMS				
Mail-in promotions	$ 5,296,000	- 8.1%	$ 5,763,000	+ 2.4%
Other premiums	$ 7,681,000	- 4.4%	$ 8,034,000	+ 4.1%
■ **ELECTRONICS, RADIO & TV**	**$499,504,000**	**+ 4.8%**	**$476,813,000**	**+ 3.3%**
▶ TRADE INCENTIVES				
Sales force merchandise	$ 191,289,000	+ 6.5%	$ 179,614,000	+19.6%
travel	$ 54,597,000	+ 6.4%	$ 51,313,000	- 7.7%
Dealer merchandise	$ 46,152,000	- 3.0%	$ 47,579,000	- 9.8%
travel	$ 112,827,000	+ 8.5%	$ 103,988,000	- 5.1%
▶ BUSINESS GIFTS	$ 47,978,000	- 2.3%	$ 49,107,000	- 0.5%
▶ CONSUMER PREMIUMS				
Mail-in promotions	$ 16,275,000	+ 7.8%	$ 15,097,000	-11.1%
Other premiums	$ 30,386,000	+ 0.9%	$ 30,115,000	+10.4%

	EXPENDITURES 1989		EXPENDITURES 1988	
■ **FARM EQUIPMENT**	**$217,253,000**	**+ 0.4%**	**$216,467,000**	**+ 7.1%**
▶ TRADE INCENTIVES				
Sales force merchandise	$ 28,077,000	+ 4.5%	$ 26,868,000	+ 2.2%
travel	$ 30,665,000	+ 8.6%	$ 28,237,000	+11.0%
Dealer merchandise	$ 70,523,000	- 3.1%	$ 72,779,000	+ 0.2%
travel	$ 66,229,000	+ 0.8%	$ 65,703,000	+17.2%
▶ BUSINESS GIFTS	$ 13,173,000	- 5.1%	$ 13,881,000	+ 5.9%
▶ CONSUMER PREMIUMS				
Mail-in promotions	$ 4,081,000	- 7.1%	$ 4,393,000	+ 4.2%
Other premiums	$ 4,505,000	- 2.2%	$ 4,606,000	+ 6.7%
■ **FEED, FERTILIZER & FARM SUPPLIES**	**$224,382,000**	**+ 15.0%**	**$195,182,000**	**- 0.4%**
▶ TRADE INCENTIVES				
Sales force merchandise	$ 41,810,000	+16.5%	$ 35,888,000	+ 5.1%
travel	$ 16,892,000	+14.2%	$ 14,792,000	- 9.5%
Dealer merchandise	$ 52,759,000	+20.6%	$ 43,747,000	- 4.7%
travel	$ 29,458,000	+17.1%	$ 25,156,000	+ 3.3%
▶ BUSINESS GIFTS	$ 13,967,000	+ 6.1%	$ 13,164,000	- 1.8%
▶ CONSUMER PREMIUMS				
Mail-in promotions	$ 18,819,000	+ 3.1%	$ 18,253,000	- 1.2%
Other premiums	$ 50,677,000	+14.7%	$ 44,182,000	+ 2.0%
■ **FOOD PRODUCTS**	**$1,629,594,000**	**+ 4.6%**	**$1,557,350,000**	**+ 3.9%**
▶ TRADE INCENTIVES				
Sales force merchandise	$ 219,287,000	+14.9%	$ 190,850,000	+10.3%
travel	$ 35,681,000	+ 1.1%	$ 35,293,000	+14.5%
Dealer merchandise	$ 124,671,000	- 3.3%	$ 128,926,000	+ 6.8%
travel	$ 11,833,000	- 3.1%	$ 12,212,000	+17.8%
▶ BUSINESS GIFTS	$ 45,173,000	+ 8.1%	$ 41,788,000	+ 0.3%
▶ CONSUMER PREMIUMS				
Mail-in promotions	$ 652,100,000	+ 3.7%	$ 625,216,000	+ 3.2%
Other premiums	$ 540,849,000	+ 3.4%	$ 523,065,000	+ 1.2%
■ **FURNITURE & FLOOR COVERINGS**	**$95,323,000**	**+ 1.2%**	**$94,193,000**	**+ 7.0%**
▶ TRADE INCENTIVES				
Sales force merchandise	$ 14,298,000	- 5.2%	$ 15,082,000	+ 4.2%
travel	$ 4,087,000	+ 3.9%	$ 3,934,000	+ 0.6%
Dealer merchandise	$ 40,663,000	+ 1.4%	$ 40,102,000	+12.9%
travel	$ 19,373,000	+ 7.0%	$ 18,106,000	+ 3.5%
▶ BUSINESS GIFTS	$ 7,259,000	- 3.4%	$ 7,514,000	+ 3.1%
▶ CONSUMER PREMIUMS				
Mail-in promotions	$ 5,635,000	+ 2.7%	$ 5,487,000	+ 1.2%
Other premiums	$ 4,008,000	+ 1.0%	$ 3,968,000	+ 0.9%
■ **HARDWARE**	**$35,625,000**	**+ 0.8%**	**$35,341,000**	**+ 11.4%**
▶ TRADE INCENTIVES				
Sales force merchandise	$ 10,457,000	+ 3.2%	$ 10,133,000	+28.2%
travel	$ 2,757,000	+ 2.8%	$ 2,682,000	+22.4%
Dealer merchandise	$ 9,579,000	+ 3.1%	$ 9,291,000	- 1.3%
travel	$ 1,149,000	+ 3.4%	$ 1,109,000	+11.1%
▶ BUSINESS GIFTS	$ 2,231,000	- 4.1%	$ 2,326,000	+ 4.5%
▶ CONSUMER PREMIUMS				
Mail-in promotions	$ 4,875,000	- 2.8%	$ 5,015,000	+ 2.9%
Other premiums	$ 4,579,000	- 4.3%	$ 4,785,000	+16.2%

	EXPENDITURES 1989		EXPENDITURES 1988	
■ HEATING & AIR CONDITIONING	**$311,309,000**	**+ 5.2%**	**$295,833,000**	**+ 7.0%**
▶ TRADE INCENTIVES				
Sales force merchandise	$ 47,200,000	+14.8%	$ 41,115,000	+17.6%
travel	$ 53,793,000	+ 9.4%	$ 49,171,000	- 0.8%
Dealer merchandise	$ 105,964,000	+ 1.8%	$ 104,090,000	+18.0%
travel	$ 55,386,000	+ 2.7%	$ 53,930,000	- 5.9%
▶ BUSINESS GIFTS	$ 28,689,000	+ 3.1%	$ 27,826,000	+ 3.3%
▶ CONSUMER PREMIUMS				
Mail-in promotions	$ 6,969,000	+ 2.4%	$ 6,806,000	+ 1.2%
Other premiums	$ 13,308,000	+ 3.2%	$ 12,895,000	+ 0.2%
■ HOUSEWARES & HOME FURNISHINGS	**$209,235,000**	**- 1.0%**	**$211,258,000**	**+ 4.4%**
▶ TRADE INCENTIVES				
Sales force merchandise	$ 54,057,000	+ 4.2%	$ 51,878,000	+ 0.1%
travel	$ 9,509,000	+ 5.3%	$ 9,030,000	+17.3%
Dealer merchandise	$ 25,783,000	+ 1.7%	$ 25,352,000	+ 8.0%
travel	$ 7,420,000	+ 2.2%	$ 7,260,000	+10.6%
▶ BUSINESS GIFTS	$ 18,160,000	- 6.2%	$ 19,360,000	+10.7%
▶ CONSUMER PREMIUMS				
Mail-in promotions	$ 6,065,000	- 4.7%	$ 6,364,000	+ 2.0%
Other premiums	$ 88,241,000	- 4.1%	$ 92,014,000	+ 3.4%
■ INDUSTRIAL CHEMICALS	**$119,139,000**	**+ 6.3%**	**$112,109,000**	**+ 2.8%**
▶ TRADE INCENTIVES				
Sales force merchandise	$ 26,671,000	+20.9%	$ 22,060,000	+15.6%
travel	$ 8,520,000	+23.3%	$ 6,910,000	+ 7.5%
Dealer merchandise	$ 37,285,000	- 2.0%	$ 38,046,000	- 1.1%
travel	$ 7,654,000	+ 1.4%	$ 7,548,000	+ 2.6%
▶ BUSINESS GIFTS	$ 19,079,000	+ 1.2%	$ 18,853,000	- 2.1%
▶ CONSUMER PREMIUMS				
Mail-in promotions	$ 4,804,000	+ 3.1%	$ 4,660,000	+ 2.1%
Other premiums	$ 15,126,000	+ 7.8%	$ 14,032,000	+ 1.0%
■ MACHINERY & SUPPLIES	**$174,394,000**	**+11.0%**	**$157,118,000**	**+ 9.7%**
▶ TRADE INCENTIVES				
Sales force merchandise	$ 77,708,000	+15.3%	$ 67,396,000	+13.9%
travel	$ 34,916,000	+13.0%	$ 30,899,000	+10.2%
Dealer merchandise	$ 9,967,000	+12.2%	$ 8,883,000	+ 5.8%
travel	$ 14,236,000	+ 2.9%	$ 13,835,000	+16.0%
▶ BUSINESS GIFTS	$ 25,236,000	+ 6.3%	$ 23,740,000	+ 2.4%
▶ CONSUMER PREMIUMS				
Mail-in promotions	$ 6,592,000	- 3.8%	$ 6,852,000	- 2.5%
Other premiums	$ 5,739,000	+ 4.1%	$ 5,513,000	+ 1.8%
■ OFFICE EQUIPMENT	**$320,856,000**	**+11.5%**	**$287,788,000**	**+ 3.1%**
▶ TRADE INCENTIVES				
Sales force merchandise	$ 64,676,000	+15.2%	$ 56,142,000	+ 0.3%
travel	$ 79,973,000	+21.7%	$ 65,713,000	+ 2.5%
Dealer merchandise	$ 36,420,000	+ 9.4%	$ 33,291,000	+ 5.6%
travel	$ 20,183,000	- 1.1%	$ 20,407,000	+ 3.1%
▶ BUSINESS GIFTS	$ 32,782,000	+ 3.8%	$ 31,582,000	+ 6.0%
▶ CONSUMER PREMIUMS				
Mail-in promotions	$ 11,290,000	+ 4.1%	$ 10,845,000	+ 2.4%
Other premiums	$ 75,532,000	+ 8.2%	$ 69,808,000	+ 3.6%

	EXPENDITURES 1989		EXPENDITURES 1988	
■ PAINTS & VARNISHES	**$70,382,000**	**+ 0.1%**	**$70,476,000**	**+ 9.0%**
▶ TRADE INCENTIVES				
Sales force merchandise	$ 16,372,000	+ 2.9%	$ 15,911,000	+ 2.5%
travel	$ 5,946,000	+ 3.4%	$ 5,751,000	+16.4%
Dealer merchandise	$ 14,238,000	+ 2.6%	$ 13,877,000	+11.4%
travel	$ 11,803,000	+ 2.4%	$ 11,526,000	+10.1%
▶ BUSINESS GIFTS	$ 2,604,000	- 3.0%	$ 2,685,000	+ 4.8%
▶ CONSUMER PREMIUMS				
Mail-in promotions	$ 13,576,000	- 7.1%	$ 14,614,000	+12.4%
Other premiums	$ 5,843,000	- 4.4%	$ 6,112,000	+ 7.1%
■ PAPER PRODUCTS & PACKAGING	**$89,353,000**	**+ 5.6%**	**$84,606,000**	**+ 4.4.%**
▶ TRADE INCENTIVES				
Sales force merchandise	$ 11,724,000	+ 7.8%	$ 10,876,000	+ 1.5%
travel	$ 10,634,000	+ 3.5%	$ 10,274,000	+ 0.4%
Dealer merchandise	$ 9,975,000	+ 3.4%	$ 9,647,000	- 6.5%
travel	$ 5,435,000	+ 8.6%	$ 5,005,000	+ 1.1%
▶ BUSINESS GIFTS	$ 12,197,000	+ 1.4%	$ 12,029,000	+ 0.2%
▶ CONSUMER PREMIUMS				
Mail-in promotions	$ 21,784,000	+ 7.6%	$ 20,245,000	+10.6%
Other premiums	$ 17,604,000	+ 6.5%	$ 16,530,000	+13.6%
■ PETROLEUM PRODUCTS	**$310,007,000**	**+ 5.1%**	**$294,990,000**	**+ 2.2%**
▶ TRADE INCENTIVES				
Sales force merchandise	$ 65,808,000	+ 6.0%	$ 62,093,000	+ 2.9%
travel	$ 16,380,000	+ 1.9%	$ 16,075,000	+ 0.2%
Dealer merchandise	$ 85,799,000	+ 4.6%	$ 82,026,000	+ 0.8%
travel	$ 15,133,000	+ 5.7%	$ 14,317,000	- 0.4%
▶ BUSINESS GIFTS	$ 17,020,000	+ 1.8%	$ 16,719,000	+ 6.7%
▶ CONSUMER PREMIUMS				
Mail-in promotions	$ 41,845,000	+ 4.1%	$ 40,197,000	+ 4.5%
Other premiums	$ 68,022,000	+ 7.0%	$ 63,572,000	+ 2.1%
■ PHARMACEUTICALS	**$201,877,000**	**+ 5.3%**	**$191,776,000**	**+ 5.5%**
▶ TRADE INCENTIVES				
Sales force merchandise	$ 62,784,000	+ 7.3%	$ 58,513,000	+11.0%
travel	$ 18,722,000	+15.2%	$ 16,252,000	+ 4.9%
Dealer merchandise	$ 25,840,000	+ 6.2%	$ 24,331,000	+ 0.3%
travel	$ 10,404,000	+ 4.0%	$ 10,004,000	+ 1.7%
▶ BUSINESS GIFTS	$ 32,727,000	- 4.7%	$ 34,341,000	+ 4.1%
▶ CONSUMER PREMIUMS				
Mail-in promotions	$ 25,829,000	+ 7.6%	$ 24,005,000	+ 7.1%
Other premiums	$ 25,571,000	+ 5.1%	$ 24,330,000	+ 0.8%
■ SPORTING GOODS & TOYS	**$55,750,000**	**- 0.1%**	**$55,817,000**	**+ 5.1%**
▶ TRADE INCENTIVES				
Sales force merchandise	$ 9,873,000	+ 3.8%	$ 9,512,000	+ 7.4%
travel	$ 6,900,000	+ 2.8%	$ 6,712,000	+ 2.1%
Dealer merchandise	$ 10,773,000	+ 1.1%	$ 10,656,000	+ 9.3%
travel	$ 4,742,000	+ 3.1%	$ 4,599,000	+ 1.0%
▶ BUSINESS GIFTS	$ 2,818,000	+ 1.0%	$ 2,790,000	- 0.4%
▶ CONSUMER PREMIUMS				
Mail-in promotions	$ 10,057,000	- 4.4%	$ 10,520,000	+ 4.5%
Other premiums	$ 10,587,000	- 4.0%	$ 11,028,000	+ 5.2%

	EXPENDITURES 1989		EXPENDITURES 1988	
■ TOILETRIES & COSMETICS	**$1,074,574,000**	**+11.8%**	**$961,511,000**	**+10.4%**
▶ TRADE INCENTIVES				
Sales force merchandise	$ 350,140,000	+15.4%	$ 303,414,000	+ 9.2%
travel	$ 42,252,000	+ 8.7%	$ 38,870,000	+ 5.2%
Dealer merchandise	$ 109,618,000	+14.7%	$ 95,569,000	+ 6.6%
travel	$ 18,384,000	+14.1%	$ 16,112,000	+ 9.4%
▶ BUSINESS GIFTS	$ 87,111,000	+ 5.4%	$ 82,648,000	+12.9%
▶ CONSUMER PREMIUMS				
Mail-in promotions	$ 227,346,000	+10.7%	$ 205,371,000	+13.3%
Other premiums	$ 239,723,000	+ 9.2%	$ 219,527,000	+11.2%

■ MISCELLANEOUS MANUFACTURERS	**$902,297,000**	**+11.2%**	**$811,278,000**	**+ 5.7%**
▶ TRADE INCENTIVES				
Sales force merchandise	$ 150,968,000	+12.3%	$ 134,433,000	+ 5.8%
travel	$ 41,263,000	+14.9%	$ 35,912,000	+ 8.2%
Dealer merchandise	$ 133,725,000	+ 7.6%	$ 124,280,000	+ 5.3%
travel	$ 30,851,000	+11.0%	$ 27,794,000	+12.4%
▶ BUSINESS GIFTS	$ 86,086,000	+ 4.0%	$ 82,775,000	+10.1%
▶ CONSUMER PREMIUMS				
Mail-in promotions	$ 161,009,000	+11.2%	$ 144,792,000	+ 4.9%
Other premiums	$ 298,395,000	+14.2%	$ 261,292,000	+ 4.1%

SERVICE INDUSTRIES

	EXPENDITURES 1989		EXPENDITURES 1988	
■ BANKS AND SAVINGS & LOAN	**$219,240,000**	**+ 4.1%**	**$210,674,000**	**+ 2.6%**
▶ TRADE INCENTIVES				
Sales force merchandise	$ 39,709,000	+ 1.2%	$ 39,238,000	+ 2.3%
travel	$ 2,829,000	+10.7%	$ 2,556,000	+ 7.4%
Dealer merchandise	$ 2,252,000	+ 3.3%	$ 2,180,000	+ 4.9%
travel	$ 373,000	+ 1.2%	$ 369,000	+ 5.2%
▶ BUSINESS GIFTS	$ 51,125,000	+ 3.6%	$ 49,348,000	- 0.7%
▶ CONSUMER PREMIUMS				
Mail-in promotions	$ 20,018,000	+ 4.1%	$ 19,230,000	+ 2.3%
Other premiums	$102,934,000	+ 5.3%	$ 97,753,000	+ 4.4%

■ DISTRIBUTORS & WHOLESALERS	**$1,499,270,000**	**+ 9.7%**	**$1,366,746,000**	**+ 2.6%**
▶ TRADE INCENTIVES				
Sales force merchandise	$ 433,353,000	+ 9.1%	$ 397,207,000	- 1.1%
travel	$ 34,849,000	+ 7.6%	$ 32,388,000	+ 8.0%
Dealer merchandise	$ 166,109,000	+10.8%	$ 149,918,000	+ 0.5%
travel	$ 23,457,000	+ 7.5%	$ 21,820,000	+ 0.8%
▶ BUSINESS GIFTS	$ 269,746,000	+13.1%	$ 238,502,000	+ 2.4%
▶ CONSUMER PREMIUMS				
Mail-in promotions	$ 328,422,000	+ 8.6%	$ 302,433,000	+ 1.9%
Other premiums	$ 243,334,000	+ 8.4%	$ 224,478,000	+ 2.6%

	EXPENDITURES 1989		EXPENDITURES 1988	
■ INSURANCE	**$729,911,000**	**+ 6.6%**	**$684,648,000**	**+ 10.0%**
▶ TRADE INCENTIVES				
Sales force merchandise	$ 256,024,000	+ 7.9%	$ 237,279,000	+12.9%
travel	$ 224,944,000	+ 8.4%	$ 207,513,000	+ 8.2%
Dealer merchandise	$ 14,848,000	+ 0.7%	$ 14,745,000	+10.2%
travel	$ 74,739,000	- 4.4%	$ 78,179,000	+20.2%
▶ BUSINESS GIFTS	$ 66,648,000	+11.9%	$ 59,560,000	- 2.5%
▶ CONSUMER PREMIUMS				
Mail-in promotions	$ 83,050,000	+ 7.1%	$ 77,544,000	+ 6.9%
Other premiums	$ 66,648,000	+11.9%	$ 8,828,000	+ 3.8%
■ PUBLIC UTILITIES	**$28,305,000**	**+ 4.4%**	**$27,113,000**	**+ 4.3%**
▶ TRADE INCENTIVES				
Sales force merchandise	$ 7,362,000	+ 5.8%	$ 6,958,000	+ 4.4%
travel	$ 3,463,000	+ 7.3%	$ 3,227,000	+ 7.5%
Dealer merchandise	$ 3,299,000	+ 5.0%	$ 3,142,000	+ 0.6%
travel	$ 373,000	+ 1.7%	$ 367,000	+ 2.8%
▶ BUSINESS GIFTS	$ 2,759,000	+ 2.6%	$ 2,689,000	+ 4.1%
▶ CONSUMER PREMIUMS				
Mail-in promotions	$ 5,580,000	+ 1.8%	$ 5,481,000	+ 3.6%
Other premiums	$ 5,469,000	+ 4.2%	$ 5,249,000	+ 5.4%
■ PUBLISHERS, PRINTERS & BROADCASTERS	**$305,489,000**	**+ 6.0%**	**$288,097,000**	**+ 4.8%**
▶ TRADE INCENTIVES				
Sales force merchandise	$ 107,265,000	+ 5.9%	$ 101,289,000	+ 4.4%
travel	$ 21,994,000	+10.8%	$ 19,850,000	+10.8%
Dealer merchandise	$ 14,188,000	+10.5%	$ 12,840,000	- 2.5%
travel	$ 5,943,000	+ 9.4%	$ 5,432,000	- 1.8%
▶ BUSINESS GIFTS	$ 37,809,000	+ 5.0%	$ 36,009,000	+ 4.2%
▶ CONSUMER PREMIUMS				
Mail-in promotions	$ 80,824,000	+ 5.3%	$ 76,756,000	+ 5.2%
Other premiums	$ 37,466,000	+ 4.3%	$ 35,921,000	+ 6.3%
■ RETAILERS	**$2,807,083,000**	**+ 8.4%**	**$2,589,189,000**	**+ 3.0%**
▶ TRADE INCENTIVES				
Sales force merchandise	$ 446,554,000	+ 4.7%	$ 426,508,000	+ 3.8%
travel	$ 311,869,000	+15.4%	$ 270,250,000	+ 0.3%
Dealer merchandise	$ 53,646,000	+ 8.8%	$ 49,307,000	+ 2.1%
travel	$ 41,237,000	+ 7.0%	$ 38,539,000	+ 1.4%
▶ BUSINESS GIFTS	$ 217,956,000	+ 3.9%	$ 209,775,000	+ 8.3%
▶ CONSUMER PREMIUMS				
Mail-in promotions	$ 206,349,000	+ 4.2%	$ 198,032,000	+ 6.5%
Other premiums	$1,529,472,000	+ 9.5%	$1,396,778,000	+ 2.2%
■ MISCELLANEOUS SERVICES	**$1,015,479,000**	**+ 8.1%**	**$939,373,000**	**+ 7.2%**
▶ TRADE INCENTIVES				
Sales force merchandise	$ 289,702,000	+ 9.2%	$ 265,295,000	+ 7.2%
travel	$ 110,925,000	+10.1%	$ 100,749,000	+ 3.8%
Dealer merchandise	$ 144,637,000	+10.9%	$ 130,421,000	+ 7.8%
travel	$ 82,455,000	+ 9.9%	$ 75,027,000	+10.5%
▶ BUSINESS GIFTS	$ 143,638,000	+ 6.3%	$ 135,125,000	+ 0.5%
▶ CONSUMER PREMIUMS				
Mail-in promotions	$ 181,191,000	+ 5.7%	$ 171,420,000	+14.1%
Other premiums	$ 62,931,000	+ 2.6%	$ 61,336,000	+ 5.4%

Do Employee Owners Try Harder?

For Employee Stock Ownership Plans to increase productivity, a piece of paper isn't enough. Worker participation is crucial.

BY REGINA EISMAN

An Employee Stock Ownership Plan can help put an unprofitable company in the black. It can ward off takeover attempts and provide substantial tax breaks. But can it work as a motivational tool, spurring employees to be more productive?

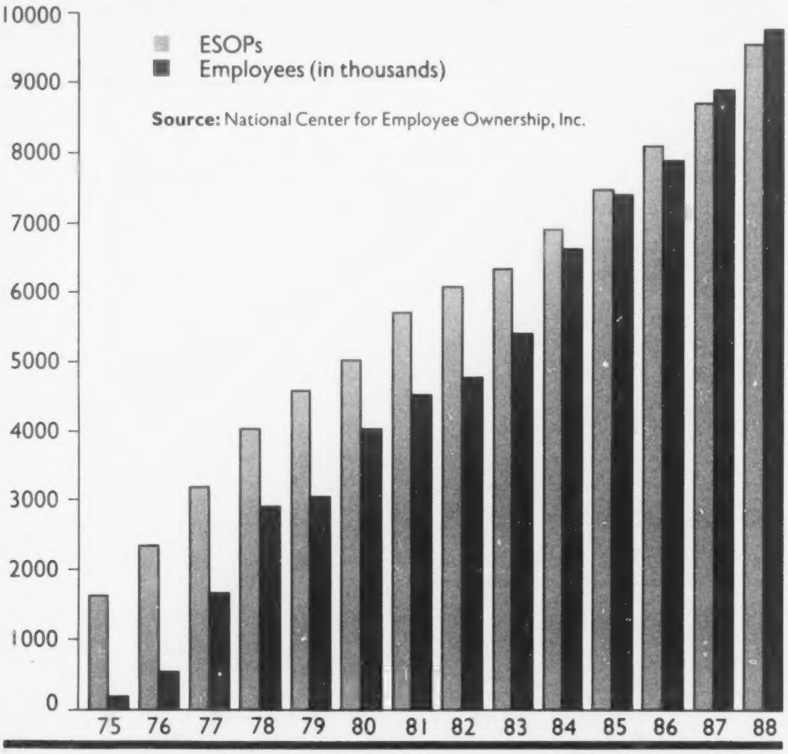
There is evidence to show that the answer is yes—but only if the ESOP is combined with a participative management system that gives the workers a voice in how the company is run.

"There is not an automatic relationship between ownership and labor productivity," says Corey Rosen, executive director of the National Center for Employee Ownership (NCEO), a nonprofit group in Oakland, Calif., that studies ESOP's and sponsors seminars. "Without participative management, it won't work. An ESOP might motivate employees to work harder, but participation motivates them to work more effectively. There's a difference between working hard and working effectively."

Workers will be more effective at their jobs, he notes, if they can discuss their ideas with management and have input into decisions that affect them.

Though experts agree that this interactive approach to management does affect productivity, whether it affects profitability as well is open to debate. A 1989 study written by Robert Ragland, chief tax counsel for the National Chamber Foundation, a Washington-based public policy research organization, states that interactive management does not necessarily make ESOP companies more profitable than they would be without such plans.

GROWTH OF EMPLOYEE OWNERSHIP PLANS 1975-1988



Source: National Center for Employee Ownership, Inc.

NCEO's research has shown, however, that companies with ESOP's but without participatory management do not grow or grow by a very small percentage, while companies with both elements grow at a rate of 8 to 11 percent per year.

A 1987 report by the U.S. General Accounting Office was not optimistic about ESOP's. The office's research showed insignificant profitability and productivity improvement in companies that started ESOP's. Although it did find that participative management combined with an ESOP improved productivity, it was only by about 3 percent.

Among the ingredients that NCEO says are necessary for successful participatory management in an ESOP:

- Personal commitment of top management to the new system;
- Written corporate values that outline the company's commitment to employee ownership;
- A policy of allowing employees

One study shows that ESOP's combined with team management can improve company productivity by 8 to 11 percent; another study shows only a 3 percent increase.

who have the most expertise in a given area to make the decisions about it;

- A training program to give employees more decision-making power, and
- Sharing of information between management and employees.

In an ESOP, the company sets up a trust fund for employees and contributes shares or cash to buy shares. The ESOP also can borrow money from the company or an outside lender, buy shares with the money and receive contributions from the company to repay the loan. Or the company can borrow money from and reloan it to the ESOP. These borrowing methods provide the company with tax advantages.

Most companies contribute 8 to 15 percent of each employee's salary to his or her plan, and employees cash in their shares when they leave the company or retire, although there are exceptions. At Avis Inc., for example, employees must wait seven years to collect if they leave the firm prior to retirement.

The number of ESOP's in the United States has been growing at a rate of 600 to 800 additional plans annually since 1974 when the idea first took hold, according to NCEO. About 10,000 companies with a total of 10 million employees have ESOP's. Though no figures are available, the failure rate for ESOP companies compares favorably with that of non-ESOP corporations, according to Martin Staubus, an associate with the Washington, D.C.-based ESOP Association.

Management consultants who have worked with ESOP companies agree that participation must be present in order for productivity to improve, but they also point to several other important considerations:

- Is the company minority- or majority-owned? Employees can own anywhere from 1 to 100 percent of the company. "If the percentage of ownership is small, the productivity benefit is diminished," notes David A. Spieler, senior consultant at Arthur D. Little, Cambridge, Mass. "Employees won't really feel that they own the company."

"The negative thing about small ownership is there's not a tremendous risk to the employees if the company doesn't perform well," says Ted Buyniski, senior consultant at Sibson & Company, Princeton, N.J. NCEO's survey of 2,700 employees in 37 ESOP companies shows that their commitment to the company, job satisfaction and effort on the job increase with the amount of stock they own.

- Do the employees have voting rights? In public companies, which

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"An ESOP might motivate employees to work harder, but participation motivates them to work more effectively."

make up 10 percent of ESOP companies, employees must be given full voting rights. Privately held companies, however, are not required by law to allow ESOP members to vote their shares, except on certain major issues like sales and mergers. When employees can vote, they feel more a part of the organization, consultants say.

- Who are the trustees? The ESOP must be overseen by one or more trustees. Often, trustees are respected people who have been with the firm a long time—the "elder statesmen," says Spieler. These employees usually are senior management people, "so they're in a difficult position, being management and also representing the employee-owners," says Spieler. This is especially true if the trustees are the only ones allowed to vote. The NCEO believes that appointing an outsider as trustee is the wisest course.
- Why was the ESOP created? Some companies place a large piece of stock in employee hands as a takeover defense, as United Airlines tried to do. Others, like the Hospital Corporation of America, spin off some of their poorly performing companies and make them into an ESOP for the employees, simply to get rid of the companies, Buyniski says. "These plans aren't motivational, so they won't be too productive for the company," he comments.

In an Oct. 9 Business Week column on United Airlines, economist Robert Kuttner wrote: "[The pilots] are not buying the company because they are eager to become worker/entrepreneurs. They are buying it only to head off...a hostile takeover." He noted that ideally, an ESOP is "not a last resort but a deliberate aspiration."

But an official of an organization that educates companies on the benefits of ESOP's disagrees. "The question is, 'Is an ESOP good even if it's started for the wrong reasons?' " says Chuck Myers, secretary of the Foundation for Enterprise Development, La Jolla, Calif. "It can be." The Weirton Steel Corporation, which experts point to as an excellent example of an ESOP company with participatory management, created its plan because its parent company threatened to close the then-unprofitable firm.

Not everyone believes in the power of the ESOP to motivate. Ed Graskamp, a consultant at Chicago's Frederic W. Cook & Company, wonders, "Is it that ESOP's cause better performance or that better-performing companies are likely to put these programs in place?" Says Alberto Santos, partner in Chicago-based Hewitt Associates: "In general, I don't think ESOP's impact motivation, either because the percentage of ownership is too small

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Some analysts note that the cost of creating an ESOP might lead a company to eliminate other employee benefits and incentives.

or because the corporate culture isn't right. Employees don't get to vote on important things."

Another consultant, Dennis Bunder, managing director of New York's Handy & Associates, says: "I'm skeptical of ESOP's. They've been used so often as a transactional tool when other alternatives failed, rather than to motivate employees." In addition, other employee benefits, like retirement plans and salary increases, often are taken away in return for the ESOP, Bunder says.

Buyniski notes that the cost of creating an ESOP—estimated by NCEO at $15,000 to $50,000—in addition to the cost of issuing stock might lead a company to eliminate other employee benefits and incentives. At the Polaroid Corporation, which recently created an ESOP to avoid a takeover, workers took a 5 percent pay cut and gave up the firm's 50 percent matching contribution to the 401(k) plan.

NCEO disputes the contention, stating that employees give up pension plans for ESOP's only 8 percent of the time and salary increases 4 percent of the time. The National Chamber Foundation study found that although ESOP firms are likely to lower employee compensation, the stock contributions more than make up for any reduced salaries.

In interviews with several ESOP companies, both management and employees speak of participation as an important part of their plans' success. Worker involvement has helped the companies save money, thus there is greater wealth for the employees to share.

Weirton Steel in West Virginia created its ESOP in 1984. At the time, Weirton's parent company, Pittsburgh-based National Intergroup, was unhappy that the firm was unprofitable. "They basically said, 'You have to buy the company or we're going to shut it down,' " says Weirton manager of special projects Alan Gould. Since the ESOP, the firm has been the only major steel maker to turn a profit. All of its 8,000 employees participate in the plan, each owning about 3,000 shares of stock.

Gould says the firm's success is not just because of the ESOP but also because of the employee participation groups that were created at the same time as the ESOP. "When you have ownership of the company and ownership of the work process, that's when the payoff comes," he says. There are 100 voluntary groups with a total of 1,000 employees from both labor and management. "The general goal is to improve the work process in their area," Gould says.

Employees interested in joining a

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THE TOP TEN

The ten largest[1] ESOP companies that are at least 20 percent majority owned.

Company	**Business**	**Employees**
Publix Supermarkets	Supermarkets	60,000
HealthTrust	Hospital management	23,000
Avis Inc.	Rental cars	20,000
Science Applications	Research & development	11,000
EPIC Healthcare	Hospital management	10,000
Charter Medical	Hospital management	9,000
Parsons Corp.	Engineering	8,600
Weirton Steel	Steel manufacturing	8,200
Avondale Shipyards	Shipbuilding	7,500
Dan River Co.	Textiles	7,000

Source: National Center for Employee Ownership, Inc.

[1] based on number of employees

group attend a three-day training class that covers problem solving and collective decision making. Thereafter, groups of about 15 people from the same department have weekly one-hour meetings. If the employees find problems in their departments, they work on solving them.

From 1984 to 1986, Gould says Weirton saved more than $10 million as a result of employee participation group suggestions. (The company has not audited the total savings since then.) One group will save the firm $400,000 a year after redesigning axles used on ladle transfer cars, which transfer molten steel from the furnace to the factory floor. "The employees noticed that there was an abnormally high breakage rate on the axles," Gould says. "They tracked it, gathered data and determined that there was a design flaw."

Co-manager of employee participation groups Anthony Julian says Weirton is not just trying to save money: "We're trying to change the company culture. Doing things based on money alone can be dangerous, because you may end up making the wrong decisions."

In addition to the employee participation groups, Weirton developed ad hoc task forces and statistical process control groups that work on quality improvement. For the past several years, one task force has been working on converting the existing steelmaking process to a less costly yet higher quality process.

Because of the ESOP, the employees took a 20 percent pay cut and a 20 percent cut in benefits. But the annual dividend checks "have softened the cut a lot," notes Gould. In addition, other incentive programs remain in place. These include various productivity recognition programs and a suggestion system that rewards workers with everything from lunch with the company presi-

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> **"People don't say, 'Okay, the day's over, I'm going home.' On week nights and weekends, our parking lot is one-third full."—a 19-year employee of an ESOP company**

dent to a trip to Disney World.

This year, Weirton had an outside firm conduct a survey of employee satisfaction with the ESOP and participation plans. "There was an overwhelming sense of pride in the company," Gould says. "The employees link their success to the company's success." At the same time, there were criticisms about the way certain things are done. Although he declines to be specific, Gould says management is giving the employees responsibility to help work out the problems.

Another ESOP company that uses employee participation groups, the Science Applications International Corporation, was one of the pioneers of the ESOP movement. It became an employee-owned company in 1971, barely two years after it was founded. The 11,000 employees of the La Jolla, Calif., scientific research and development company also have the option of buying additional shares from the company through payroll deduction. A total of 85 percent of the stock is held by employees: 20 percent through the ESOP and 65 percent through direct purchase. In the past 10 years, Science Applications' revenues have increased to $800 million from $100 million. The company says it has been consistently profitable.

Although sharing the wealth is certainly attractive to workers, "employee participation is really what creates the incentive," says senior vice president Chuck Nichols. Science Applications has several employee committees, both ad hoc groups that work on new technology and several permanent committees. These include the technical environment committee, which deals with the work environment; the ethics committee, and the incentives committee, which looks at other company benefits like the retirement plan and health benefits.

"Employees decide what problems they want to address, but management can suggest that they might want to take a look at a problem," Nichols says. Committees meet at least eight times a year. The committee chairpeople also sit in on company board meetings, take notes and report back to their committees.

The most recent issue in which employees were involved was health benefits. Beginning in 1990, the company is making changes in the medical plan due to rising costs. A questionnaire was sent to all employees, asking which changes they would prefer, and several committees used the data to make recommendations to management.

Instead of allocating ESOP shares based on employee salaries, as most companies do, Science Applications

CONTINUED ON PAGE 82

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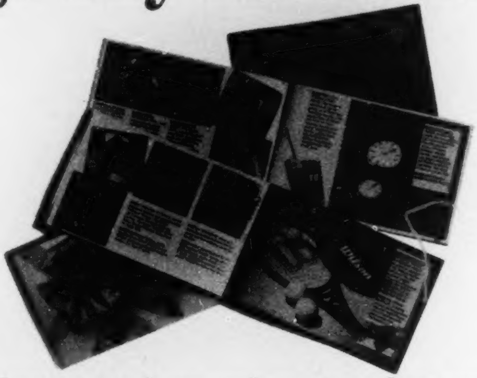

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CONTINUED FROM PAGE 54

doles them out based on quarterly employee performance reviews. Managers recommend how much stock an employee should receive.

Because the ESOP was formed so soon after the company started, Science Applications has no basis of comparison for increased productivity. But, says Nichols, "there's no doubt in our minds that the system increases productivity."

Physicist Bill Scott, chairman of the technical environment committee and a 19-year employee, believes that the ESOP motivates him and his co-workers. "People don't say, 'Okay, the day's over, I'm going home,' " he says. "On week nights and weekends, our parking lot is one-third full, and nobody is getting paid overtime."

Perhaps the best-known employee-owned company is the car-rental firm Avis Inc. The company's advertisements play up worker ownership with statements like, "As employee-owners of Avis Inc., we know we always have to be ready when you need us—because our success depends on your satisfaction." The company says the campaign has been its most successful since 1962's "We try harder" pitch.

Garden City, N.Y.-based Avis, which is 100 percent owned by 13,000 workers, created its ESOP in 1987, when the employees bought the firm for $1.75 million from the Wesray Capital Corporation. Its pension and 401(k) savings plans remained in place. "We felt that because Avis is a labor-intensive company, it was the perfect candidate for an ESOP," says vice president of human resources Donald Korn.

Shortly afterward, the company formed more than 100 employee participation groups—at least one in every Avis location, says Korn. The groups meet weekly, and workers also elect co-workers to represent them at monthly district-level meetings where they discuss ideas and review operations with managers.

Ideas that have come out of employee participation groups include reshaping gas island curbs to make it easier for cars to maneuver, causing less wear on tires and saving time; offering non-smoking cars, and solving the problem of car thefts from company parking lots (with a method that can't be disclosed for security reasons).

The firm's pre-tax profit increased to $41 million in 1988 from $14.8 million the prior year. During the first ESOP year, the number of customer complaints decreased to 1.0 per 10,000 transactions from 1.4. In addition, "our operating costs as a percentage of revenue are lower," Korn says. Employee surveys have shown that workers are happy with the new company, he adds.

A 1989 report on Avis issued by the New York State Industrial Cooperation Council, which was formed by New York Governor Mario Cuomo to study economic issues, quoted several Avis workers on their feelings about ownership. Mary Martin-Kovar, a customer service representative and a member of two employee participation groups, said: "I feel that

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I'm part of the company and the company's part of me, that any money we make, eventually I will see part of it. It's as if I owned my own candy store." Gerald Peterson, a service agent in the Philadelphia office, said he's noticed "a drastic change" in the work force since the ESOP took effect: "People are checking details, noticing things that they never would have before." He also commends management for being responsive to employee ideas: "Either we get an answer that gets it done, or we're told why it won't work."

Even companies that have ESOP's without employee participation groups note some productivity improvement. Publix Super Markets, for example, has more than 60,000 employees, who own about 7 percent of the firm, with another 10 percent owned through profit-sharing. The 366-store chain, based in Lakeland, Fla., has had its ESOP since 1974. The company has not formally tracked a relationship between the ESOP and productivity. Nevertheless, Publix claims that the ESOP makes the workers more cost conscious. "The workers don't waste supplies as much," says assistant secretary Keith Billups. "Also, they're very customer service oriented."

There have been cases where ESOP's have resulted in discord rather than harmony. Dan River Inc., a Danville, Va., textile company, was bought by its employees in 1983, but it was unprofitable and was sold to another company this year, leaving employees without the pension plan they gave up in return for the ESOP. Company officials would not return phone calls, but NCEO's Rosen says the firm "never sought any employee participation." ESOP's have even led to lawsuits, with employees suing companies for mismanaging the plan.

ESOP's are not necessarily right for every company. "If it's going to be one of many benefits, where ownership will be small, the company needs to look at whether an ESOP is going to be the most cost-effective approach," Sibson's Buyniski says. Korn sums it up this way: "An ESOP is not going to cure a sick company," he says, "but it can enhance a healthy company." ☐

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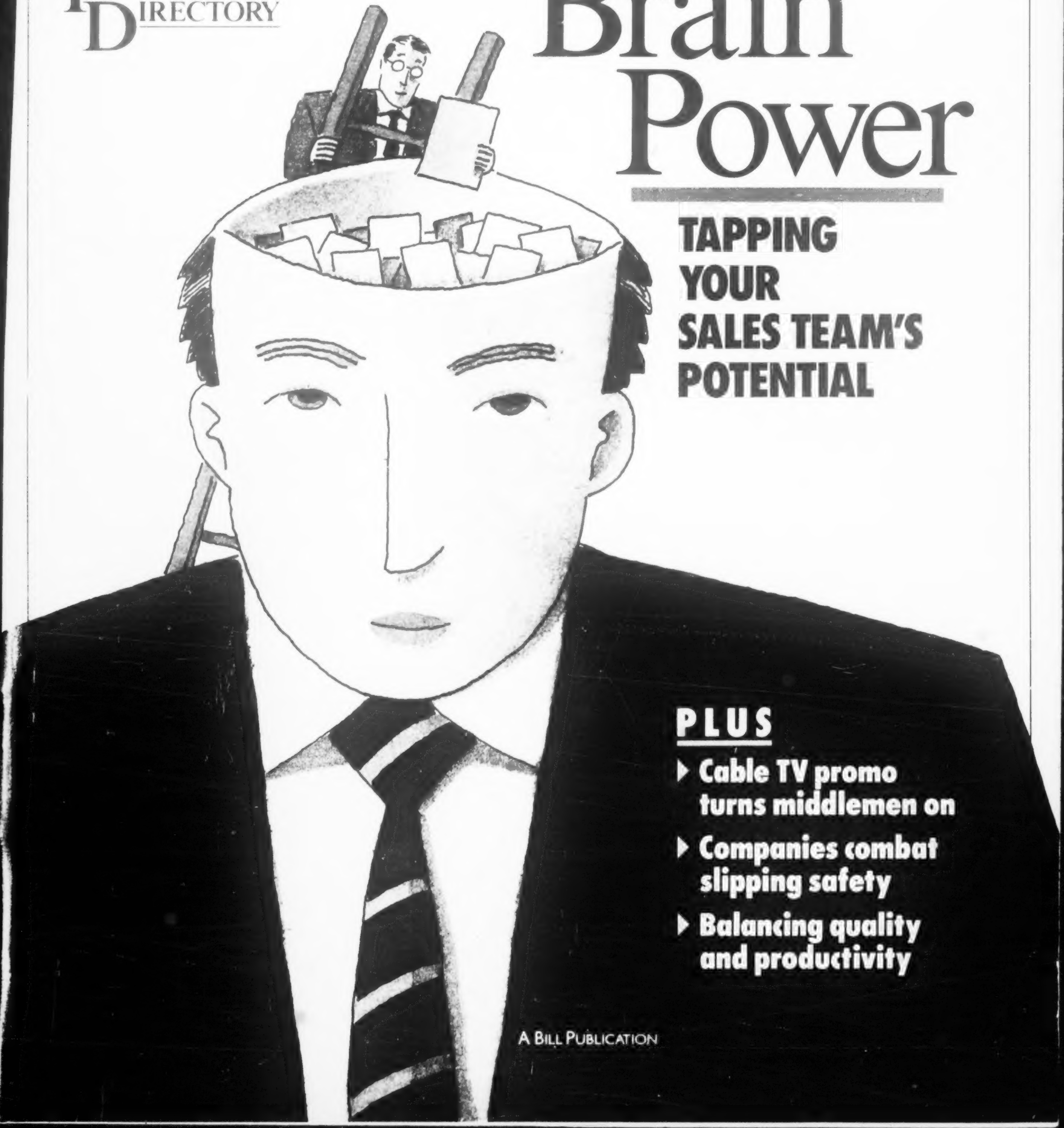

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INCENTIVE

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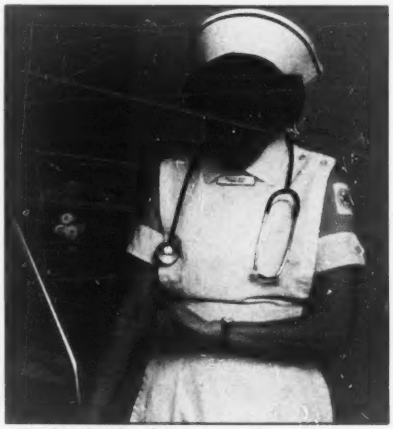

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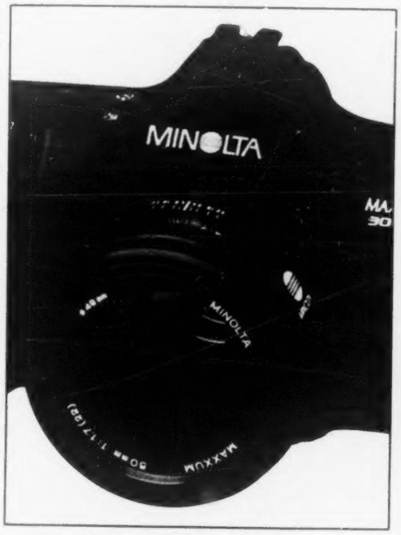

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First Aid for Safety Problems

BY MICHAEL GATES

WARNING: Your employees may be in greater danger than ever before—and that could cost you plenty in higher compensation rates, lost productivity and even lawsuits. Though speculation about root causes abounds, it's clear that accident rates and health risks in the workplace are on the rise. Consider the recent findings by the Bureau of Labor Statistics in Washington D.C.:

- In 1988—the last year for which total figures are available—there were nearly 6.2 million job-related injuries recorded in the private sector. Nearly one-half of these were serious enough to cause the injured workers to lose work days, restrict their activities on the job, or both. There were nearly 57 million lost work days in 1988, compared with about 51 million in 1987.
- About 350,000 more job-related injuries were recorded in the private sector in 1988 than in 1987. The accident rate was also higher in 1988 (see chart).

As accident rates and costs rise, workplace safety incentives are coming to the rescue.

From sensational explosions at oil refineries to minor cuts and scrapes in offices and factories, corporate casualties continue to rise. Companies are being forced to respond, and not just out of benevolence—though executives who demonstrate that they care foster higher morale among employees—but because accidents are costing them dearly.

And safety isn't just a manufacturing problem. According to the Bureau of Labor Statistics, only one-third of the total injuries reported in 1988 were in manufacturing. Other industries with high accident rates included wholesale and retail trade, services and construction. Though plants and factories had the highest injury totals, non-manufacturing businesses experienced some of the highest accident rates: eating and drinking establishments, grocery stores, hospitals, trucking firms, nursing homes, department stores, and hotels and motels.

According to the New York-based National Council on Compensation Insurance, U.S. companies paid out about $42 billion in workers' compensation premiums in 1988—and when figures are finalized for 1989, they probably will be 10 percent higher. The council's data shows premiums rising steadily since the early 1970's, and sharply since the mid-70's and early 80's.

Why? A council spokesperson

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"Injury and fatality rates are shockingly high," says an insurance industry observer. "When you work in this job you see the statistics and it sickens you."

cites three reasons: Government reports indicate that the number of industrial accidents have been increasing since the early 1980's; medical costs are soaring at twice the rate of the consumer price index, and wages —which include premiums—have been increasing at a rate of 4 percent to 5 percent per year. In the early 1970's, medical costs accounted for 25 percent of total premiums paid, while the rest went toward indemnity. The medical cost figure is now 40 percent—and indemnity costs are increasing to keep up with inflation.

There are other reasons for the jump in safety costs. "Workers' compensation benefits are set by state legislatures," says Jeff Palca, field services vice president for the Insurance Information Institute in New York. "Insurance companies have been requesting rate increases.... Generally speaking, labor tries to get the benefit levels raised, and the insurance companies say 'Fine, then you've got to raise rates.' " He notes that "compensation rates often are set at two-thirds of the employee's average weekly pay."

Asked to comment on the current injury rates, he replies that "Injury and fatality rates are shockingly high....When you work in this job you see the statistics and it sickens you."

Of course, compensation costs wouldn't be so enormous if the accident rates weren't so staggering. Observers tend to lay the blame on the feverish wave of corporate mergers and acquisitions over the past decade. "Look at corporate down-sizing," suggests Joseph Kinney, executive director of the Chicago-based National Safe Workplace Institute. "It can be driven by LBO's, mergers and so on. The effect [of the resulting debt so many companies have taken on] has been to reduce personnel, training and incentives. There's been a clear reduction in the number of training personnel, safety engineers and industrial hygienists."

"There needs to be...a recognition that corner-cutting just doesn't work," Kinney adds. "And in the short run, incentive programs make a lot of sense, as long as the goals, objectives and prizes are right."

A note of caution about the federally compiled safety statistics is sounded by Stephen G. Minter, editor of Occupational Hazards, a controlled-circulation business magazine that serves managers responsible for health and safety within their companies. "You're really looking into quicksand when you look at those statistics," he says. It is extremely difficult, he insists, to know whether they reflect an actual rise in workplace incidents, or simply better accident reporting methods. "There's been a real push by OSHA [the federal government's Occupational Safety and Health Administration] to keep more accurate records."

He admits, however, that "there could be changes in the nature of the workplace. There's a lot of interest now in 'ergonomic' issues—the fit between workers and the workplace." An example of an ergonomic problem, he explains, would be requiring workers to use equipment that hasn't been designed for comfortable use—which can lead to everything from

INDUSTRIAL SAFETY

	1988 average annual employment*	Total cases 1988	Total cases 1987	Lost workdays 1988	Lost workdays 1987
Private industry (average)	88,698.8	8.3	8.0	72.5	67.3
Agriculture, forestry & fishing	1,114.1	10.4	10.7	99.8	92.5
Mining	721.0	8.5	8.2	150.3	142.9
Construction	5,125.0	14.4	14.5	141.2	134.9
Manufacturing	19,403.0	12.1	11.3	96.4	87.9
Transportation & public utilities	5,548.0	8.8	8.3	117.3	107.
Wholesale & retail trade	25,139.0	7.8	7.6	59.8	55.4
Finance, insurance & real estate	6,676.0	2.0	1.9	16.3	13.8
Services	24,972.7	5.3	5.3	46.9	44.6

*in millions

The chart shows occupational injury incidence rates and lost work days per 100 full-time workers by industry in 1987 and 1988—the most recent years for which figures are available. Note that the trend is upward in nearly every category.
Source: Bureau of Labor Statistics, Washington, D.C.

One reason for more accidents: Cuts in training and incentives brought on by the past decade's wave of corporate mergers and acquisitions.

minor muscle strains to permanent back problems, or worse.

"In the meat packing industry," Minter says, "there have been moves in the past few years toward requiring workers to work on meat cutting lines...with repetitive cuts rather than many different cuts on the same piece of meat. That can lead to cumulative trauma disorders, which are caused by making people work at too high a speed, with too many repetitions, too much weight to lift, and so on."

Minter's magazine recently reported on a survey by the National Safe Workplace Institute that found a high level of concern for safety on the part of workers. Out of 153 Indiana workers surveyed (62.4 percent were union members), 91.9 percent agreed that the federal government should spend as much or more on occupational safety and health as it does on environmental programs. About 64 percent said their employers give low priority to health and safety; 28.6 percent said they feel "not safe" at work, while none claimed to feel "very safe," and 57 percent reported suffering at least one job-related injury that required a doctor's care.

Most experts agree that motivational programs are crucial to creating a safe workplace. And, while other factors—including maintaining proper staff levels, training workers and improving equipment—are at least equally important, incentives can boost safety rates quickly and relatively inexpensively as one part of an overall safety thrust. "A lot of people feel that motivation shouldn't be the only thing," Minter cautions, adding that unions feel some concern about companies using incentive programs as an excuse for not upgrading equipment or training.

Still, "In the short run, incentive programs make a lot of sense," says Kinney. "They help supervisors and employees solve problems quickly and cheaply." But incentive programs must be created with the input of the workers themselves, he believes. "The intelligent way to approach this is having the workers, whether unionized or not, get together with management to discuss what the goals should be and what the payoff should be." He feels the best rewards are cash, time off, better benefits, education assistance and travel opportunities.

Most experts believe that safety incentive plans must incorporate the following elements to be effective:

1. Commitment to the program by top management;
2. Research into the nature of a company's particular safety problems, including input from the union or the entire work force;
3. A specific goal that everyone can work toward over an extended period: Less than a year generally won't make a long-lasting dent in the accident rate;
4. Involvement by workers' families, when possible;
5. Meaningful rewards;
6. Recognition that motivation is not the whole answer.

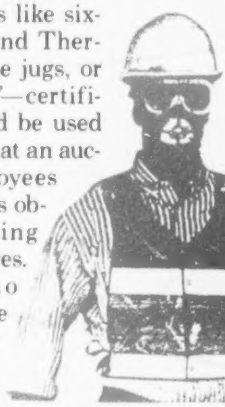
Safety incentive plans, however, don't have to be elaborate or costly to yield significant results. Owensboro Municipal Utilities in Owensboro, Ky., a small public power utility with 200 mostly male employees, sponsors a safety program for its workers built around the familiar "bonus bucks" incentive concept.

According to safety assistant Sharon D. Coffman, the company first realized it needed to emphasize safety in 1985, when it recorded an "alarming number" of lost-time injuries. Since the company already had adequate training and proper equipment, a motivational thrust was clearly in order.

The first step was a safety poster contest. The winning entry from each department—the company has power plant, water, electric transmission distribution and administrative departments—earned the employee a red satin jacket. The company also distributed jackets to everyone in each department that bettered its injury record for the previous year. And the lost workdays rate began to go down.

Next, the company tried focusing on a specific safety problem—eye injuries. Competitive teams were set up within each department, and each was charged points for any recordable eye problems. The losing team planned and cooked a steak dinner for all the others, and employees who had no recordable eye injuries were served their steak by their managers.

Owensboro then decided to institute a "summer safety program," Coffman says, designed to grapple with the company's annual peak injury period. "We vary the way we run it every year," she explains. The first year, the company used a "spotting" method, she says, awarding small prizes like six-pack coolers and Thermos-brandname jugs, or "$afety Buck$"—certificates that could be used to bid on prizes at an auction—to employees whom managers observed following safety procedures. Workers who could recite the company's current safety slogan when asked also received the prizes or bucks, and employees with no injuries by the end of the summer earned extra bucks.



What makes the bucks valuable every year is the auction, held during the company's annual end-of-summer picnic. Employees can bid on such prizes as golf balls, VCR's and grills.

Last fall, Owensboro instituted a "safety bingo" game. All employees are issued bingo cards, and when they hit a bingo, they get all the money in both a departmental "pot" and a company-wide pot set aside for the program. Each pot is increased by $5 for every injury-free day, up to a maximum of $2,000 (for both). If there is a "lost workday" injury, however, the pots immediately return to zero. "If a

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■QUALITY

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the techniques used in manufacturing—such as statistical quality control—are less applicable, but the basic TQC precepts remain.

One service firm that uses work teams successfully is the Aid Association of Lutherans, an insurance company. In 1987, it reorganized its applications and claims processing activities by instituting self-directed work teams of 20 to 30 employees. These teams handle all back-office activities for a particular geographic region. Employees schedule their own hours, assign themselves tasks, rotate jobs and set production and quality goals. The payoff: a 20-percent increase in productivity and a reduction in case processing time.

Another service firm successfully using work teams is AT&T's Credit Corporation (ATTCC), a subsidiary that provides financing for customers who lease equipment from AT&T and other companies. In 1986, ATTCC set up teams of 10 to 15 workers to combine the three major lease-processing functions (applications, contracts and collections), and assigned the teams to specific customers and sales agents. The teams established personal relationships with the customers and took responsibility for solving their problems. The groups are largely self-managed, making decisions not only about how to deal with customers, but also scheduling work and time off, assigning tasks and interviewing prospective new employees. This approach has doubled productivity.

If U.S. companies want to be world-class competitors in the years ahead, they must realize that quality and productivity are complementary—and that an efficiently produced, high-quality product or service determines success or failure in almost every industry. The "tradeoff" view of productivity and quality—that one precludes the other—is a formula for disaster in the global economy. ☐

The full text of this article will appear in the Spring 1990 issue of Engineering Costs and Production Economics, a journal published by Elsevier Science Publishers.

■SAFETY

CONTINUED FROM PAGE 39

While other factors—including proper staffing, training and equipment—are critical, incentives can help boost safety rates quickly and inexpensively.

department hasn't won yet, their pot is bigger," Coffman explains. "Three people have won so far, and the injury rate has gone down considerably."

She reports that the company conducts a safety evaluation every year, toting up the most frequent types of injuries, then putting a special emphasis on reducing them through training, slogans, and, of course, incentives. "One of the most common types of injury is the back injury," Coffman says. "So one summer we gave out extra safety bucks if there were no back injuries."

To build awareness—"the only way a safety incentive program can work is if it makes you more aware of safety," Coffman stresses—the company puts up posters emblazoned with a variety of slogans: "Start the decade off right, think safety day and night" is a generic example, while "Don't let a confined space be your last monitor" referred to the need to monitor gas levels in cramped spaces. Employees who can spontaneously recite the slogan of the month get a gift certificate to a local restaurant.

The Campbell Soup Company in Camden, N.J., might not seem like a hotbed of safety problems, but even a maker of soups has canning and shipping operations that pose potential hazards to workers. Back in August 1986, the company instituted a program called CARE TOO (Campbell Accident Reduction Effort) for 26,000 employees at various locations around the country. The workers were issued lottery-style coupons every time their plant stayed accident-free for 30 days. The coupons served as sweepstakes entries, and also had rub-off sections that revealed point values good for redemptions from a merchandise catalog. Sweeps prizes included Caribbean cruises, a car, a camper, trips to Disney World, stereos, bicycles, appliances and televisions. Campbell's increased the value of each individual plant's coupons every time it reached another accident-free 30-day plateau. Even workers' families got into the act via a poster contest for kids.

The internal promotion was so successful at reducing injuries that Campbell's ended up running it for three years, according to corporate safety director Fred Wahl. "We wanted to see what effect safety incentives had on our worker compensation costs," he says. "Over the three years, we saved over $5 million."

The side benefits of a safety emphasis shouldn't be underestimated. Ed Jacobs, personnel and safety manager at Fel-Pro Incorporated, a Skokie, Ill., manufacturer of automotive gaskets and sealers, says safety efforts almost automatically raise morale.

His company runs a safety suggestion program that awards a "Suggester of the Month" with $25 plus an imprinted coffee mug for everyone in his or her department. The "Suggester of the Year" receives a check for $1,500, presented in a ceremony at the company's annual Christmas party. A rotating committee of supervisors evaluates the safety suggestions, which are submitted in writing to Jacobs. Typical ideas, he says, have included placing mirrors over narrow aisles on the plant floor, and mounting guards on dangerous equipment.

Fel-Pro's casualties most often involve cuts and scratches, and eye and back problems. Keeping these injuries from harming motivation and boosting compensation costs are the suggestion plan's most obvious missions, but there's a psychological element as well. The program sends a simple but essential message, Jacobs says: "We don't want our employees to get hurt." ☐

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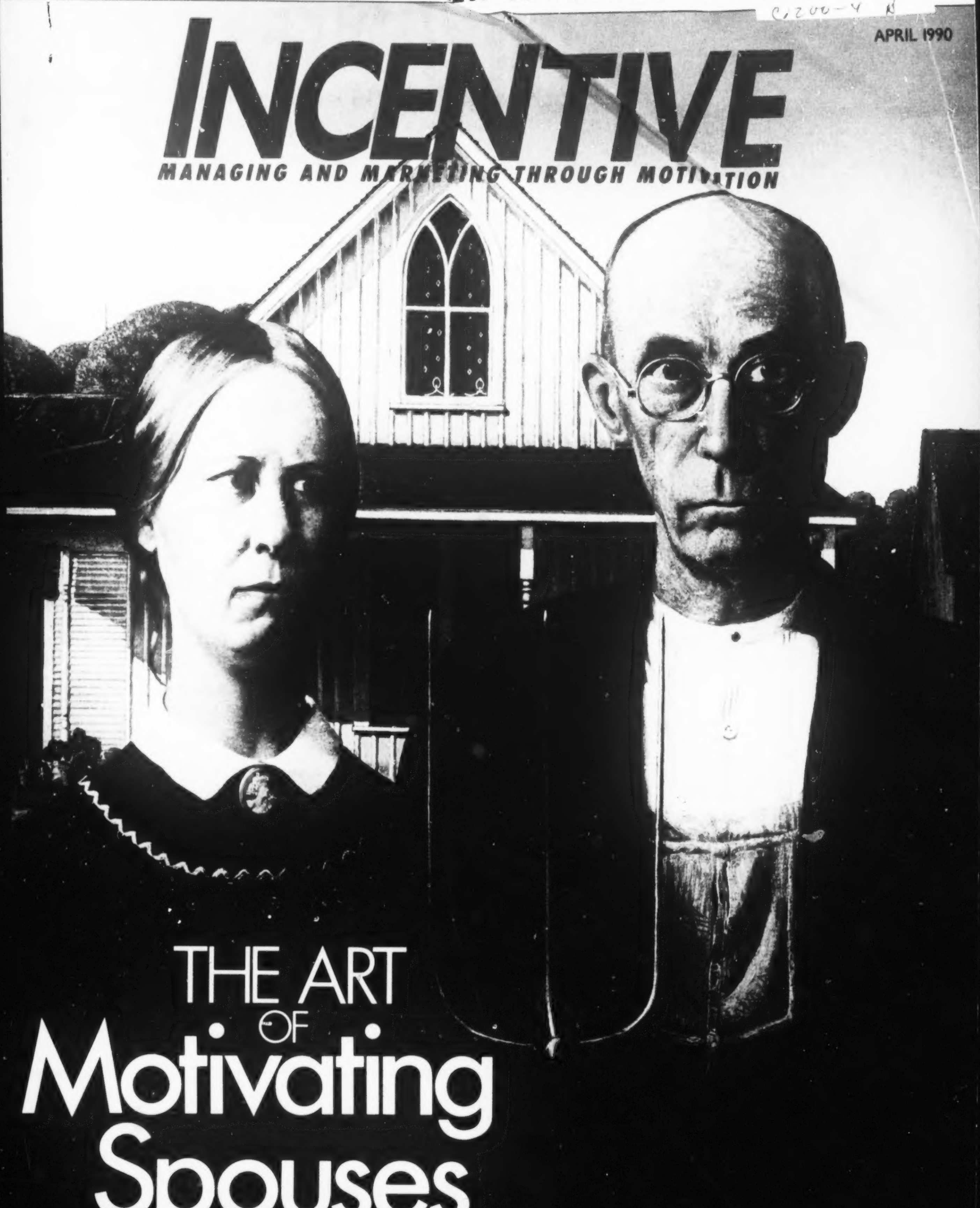

THE ART OF Motivating Spouses

A BILL PUBLICATION

APRIL 1990

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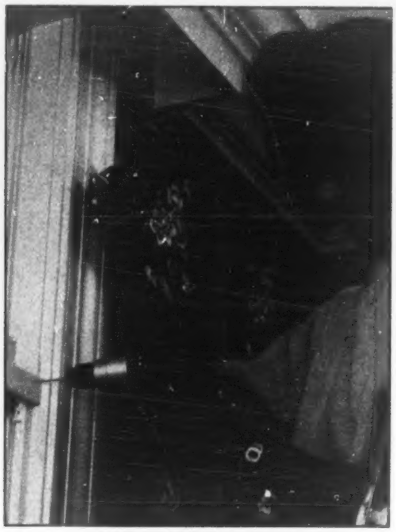

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FACTS SURVEY

Dealer Motivation

Good and bad news: Companies are running more incentive programs but seeing fewer returns.

Retailers and wholesalers are earning just as many incentive awards as last year, but they are actually delivering fewer sales dollars in return for their efforts. According to **Incentive**'s recent survey of 154 companies, this trend is coupled with another slight but unhealthy development: The cost of awards has increased slightly.

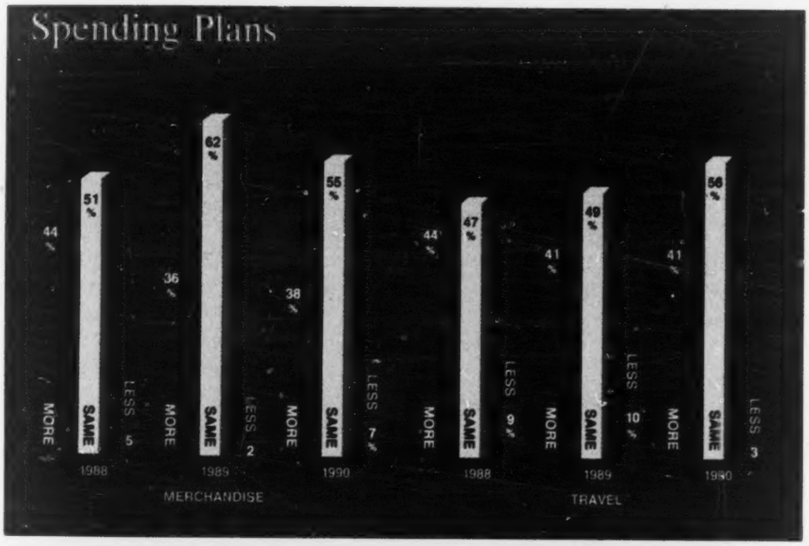
According to the survey, programs for dealers—which helped boost sales 18 percent each year from 1985 through 1987, and 16 percent in the last two years—are now producing gains averaging 14.8 percent.

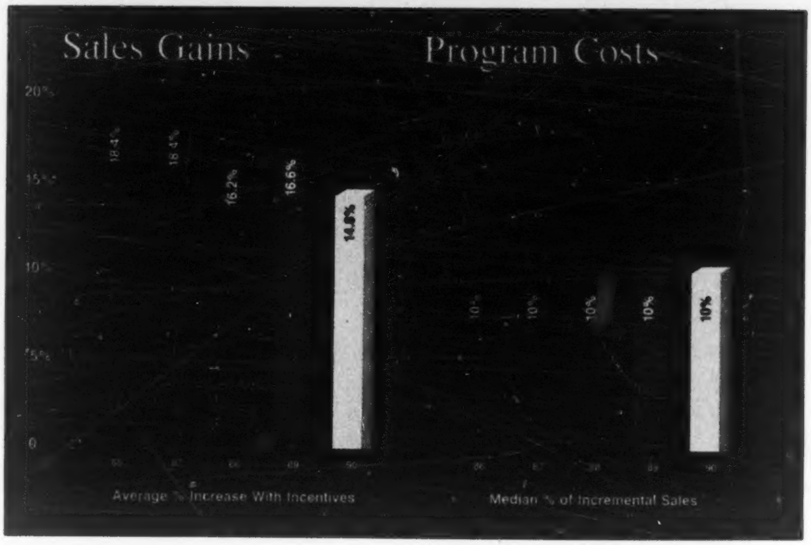
The result probably accounts for a drop in marketers' dealer incentive spending plans for this year. Survey respondents predict only a 2.9 percent growth in their dealer promotions, based on budget figures submitted for 1989 and 1990. With the lighter sales yields in their programs, many users may be spending fewer dollars on promotion.

The drop in sales gains is accompanied by a corresponding small increase in the campaign cost—expressed as a percentage of incremental volume—of 11.6 percent, up from 10.7 percent a year ago. The median, however, stayed at 10 percent, marking the seventh consecutive year at that mark.

Despite projected lower budgets, companies do report a heightened level of activity on the dealer front. The *number* of promotions has increased by 9 percent over a year ago, and two out of five companies said they are spending more, though their increases barely equal the rate of inflation.

Respondents are running a median of three merchandise incentive programs per year, up from two a year ago, while travel-only campaigns are holding at a median of one per year. Combination plans—programs





> **Participation levels have stayed about the same.**

offering a mix of merchandise and travel awards—show a median of two per year, up from one a year ago.

Participation levels have stayed basically the same, averaging 51 percent of the dealer force for all programs. The trend has swayed slightly toward merchandise awards, with 52 percent of dealers winning merchandise and 49 percent earning travel awards. Last year, those numbers were 55 and 47 respectively.

In the unit cost of awards, there is a mixed picture. The median cost of a piece of merchandise jumped significantly to $60, up from $50 in four of the past five years. The average cost declined a bit to $160, from the highs of $195 last year and $228 in 1988; the new figure is closer to where it had been in several previous years, indicating that some users have now pulled back from very big-ticket awards.

On the other hand, unit expenditures for travel awards declined to an average of $1,990, down from $2,028, and the median dropped to $1,500 from $1,850. But the per-person trip cost rose, suggesting that a smaller percentage of this year's users include spouses on their trips. The per-person median is now $1,300, compared with $1,200 a year ago, and the average has risen from $1,265 to $1,535.

Wholesalers and distributors are the primary recipients of incentive awards, but they are less dominant among this year's survey respondents than last year's. About 49 percent of users offer incentives to this group, down from 57 percent in 1989. There has been a corresponding increase in promotion to some retail dealers, particularly grocers, drugstores and service stations; these users target them in 13, 9 and 6 percent of cases, respectively, with each figure almost double the reports of a year ago.

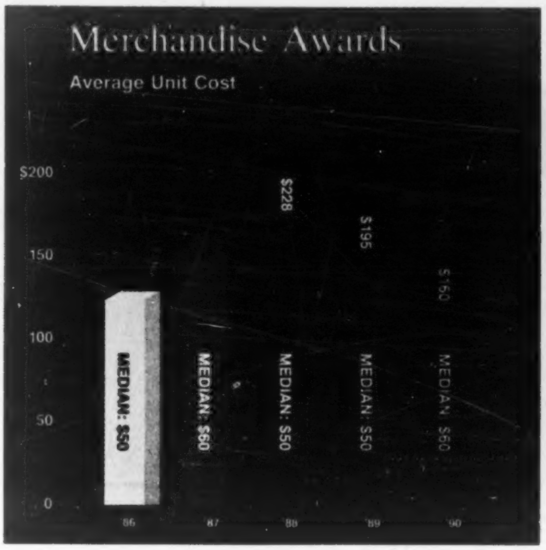
Of specialty stores, 21 percent now offer incentives, compared with 13 percent last year. Variety and department stores account for another 4 percent of promotions. Others that receive awards include commercial or industrial dealers (16 percent) and service contractors (10 percent). The reports exceed 100 percent because the average respondent targets more than one type of dealer.

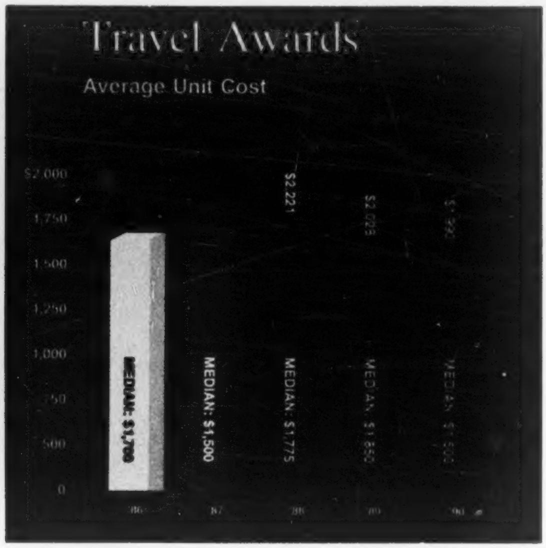
Most incentive users apply programs to selected groups of products, in order to fit particular marketing needs. Some 51 percent indicate that approach in the present survey, up from 45 percent in the previous one. About 29 percent, fewer than in the past, promote a full line, while only 20 percent put their entire effort behind a single item.

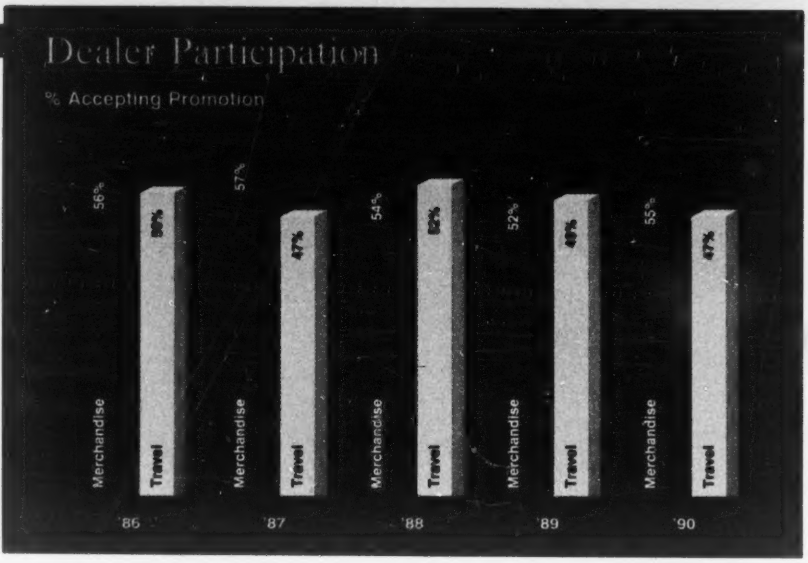
Lead times? Some executives in the survey reported planning a program in as little as two or three weeks, but they were in the distinct minority. More common is a planning cycle that runs up to a full year for merchandise-based programs and close to two years for travel campaigns. The average length for merchandise programs is 13 weeks, and for travel, 26 weeks—the same averages reported in the 1989 survey.

The nature of the promotion and the duration of the qualification period will, of course, influence the planning time somewhat. The actual selling period averages about nine weeks for the special deal offering a merchandise incentive with a specified product assortment or dollar volume.

During the planning and early stages of the promotion period, the user spends an average of 15 percent of total budget for promotion to the trade in support of the incentive offer —up from 10 percent in the last sur-







vey. This leaves 85 percent to pay for the cost of the awards themselves, versus the 90 percent that was available to the 1989 respondent.

Executives were asked, "What do you consider the major advantage of offering merchandise or travel incentives to dealers, versus cash discounts of comparable cost?" Some cited price integrity. As a Midwestern building-materials executive puts it, "The incentive does not introduce a new price. When the contest is over, you don't have to go back to customers and 'raise prices' back to prediscount levels."

Cash discounts, according to an Illinois electrical wholesaler, "tend to degrade price levels for future sales. Premiums have the connotation of 'something for nothing.' " An auto manufacturer comments that "motivation is an added benefit for added performance. Cash discounts become part of the product cost."

The motivational effect of programs is the top factor for many. An Eastern manufacturer notes that "by tying the dealer into a long-term promotion, we basically lock that dealer into our company as he earns more credit toward a trip with intended purchase."

A truck manufacturer with a large travel program finds that "travel is more glamorous and exciting to promote. Cash can have negative effects—the dealer could sell fewer units and still make the same amount of money using a cash discount."

Recognition value is especially important to a maker of heating and air-conditioning equipment: "A tangible award that broadcasts 'I'm a winner' has a greater value to the recipient and the people around that person, because you gain all that wonderful PR and advertising exposure. Cash is received by the winner and spent—none of the residual value is there."

Some respondents point to the ephemeral quality of cash. "The cash," says an Eastern association executive, "disappears into the dealer's bookkeeping. Merchandise awards are our usual award system, with travel programs being the periodic major award for top producers." A manufacturer of agricultural chemicals believes that "providing the merchandise or travel incentives offers a perceived value. They offer a longer-lasting impact versus cash in the customer's mind."

"Travel," says a recreational-vehicle manufacturer, "provides the opportunity for super-achievers to share their techniques with less-skilled or perhaps new dealers. Camaraderie established between the company and its dealers, salesmen and dealers, and between dealers, is worth more than any cash discounts will repay."

A farm equipment executive says that travel "appeals to the individual's pride of accomplishment—with an opportunity for a trip which otherwise may not be taken, or the stature of the first-class accommodations may otherwise have been deemed unaffordable or excessive." Notes a Western heating and air-conditioning distributor, "It brings the dealer group closer together."

"With an incentive, we can establish our own image and identity, i.e., quality image, which can be pro-

HOW THEY DO IT

WHO MAKES FINAL BUYING DECISION

60% Pres., CEO, exec. VP or gen. mgr

25% Director of sales or marketing

8% Product manager or merchandising manager

8% Director of advertising or sales promotion

HOW DEALER INCENTIVES ARE PROMOTED

80% Company sales force

54% Direct mail

28% Literature with product

35% Dealer sales meetings

24% Trade shows

15% Wholesalers or brokers

12% Trade-paper ads

WHEN MOST PROMOTIONS ARE LAUNCHED

14%	January	8%	July
6%	February	6%	August
11%	March	13%	September
8%	April	9%	October
7%	May	5%	November
10%	June	4%	December

Incentive users evaluate the success of their campaigns in several ways, including measuring the number of dealer orders, factory shipments or new accounts opened.

What Can Dealer Incentives Do?

% of Respondents Reporting Each Objective

61%	Increase Overall Volume
43%	Introduce New Product
39%	Sell New Accounts
35%	Improve Morale/ Good Will
29%	Offset Competition
25%	Move Full Line/ Slow Items
23%	Bolster Slow Season
23%	Build Dealer Traffic
21%	Support Consumer Promotion
12%	Prepare For Strong Season

moted," a Southern insurance executive points out. An Eastern electrical manufacturer states: "Competition can also offer cash discounts. Incentives are more unique."

While many of these incentive values fall on the psychological side of the spectrum, the users do measure results where it counts—in sales. How do they evaluate the gains? Of five types of measurement presented in the questionnaire, 46 percent cite dealer orders as their touchstone. (The percentages exceed 100 because multiple criteria are applied by many of the marketers.) Factory shipments are a close second, tallied by 41 percent of the respondents. Another 39 percent count the number of new accounts opened, while 32 percent look at salesforce reports. Only 5 percent use store audits to measure performance. ☐

Award Particulars

▶ Type of award most often used as dealer incentive:
(% OF TOTAL RESPONDENTS)

50%	Own merchandise catalogue or selection
31%	Single premium or few related items
30%	Individual travel
26%	Group travel
25%	Merchandise from incentive firm's catalogue

▶ Type of merchandise considered most effective:

51%	Personal items
44%	Home or family items
26%	Business-use items

▶ How merchandise premiums are delivered:

60%	Shipped separately
37%	Delivered by sales force
4%	Packed by product

▶ Type of supplier generally used:

MERCHANDISE AWARDS

46%	Wholesaler or premium jobber
42%	Direct from manufacturer
23%	Manufacturers' rep
22%	Full-service incentive firm

TRAVEL AWARDS

52%	Make own arrangements
29%	Travel wholesaler
28%	Full-service incentive firm
18%	Travel carrier or hotel

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MANAGING AND MARKETING THROUGH MOTIVATION

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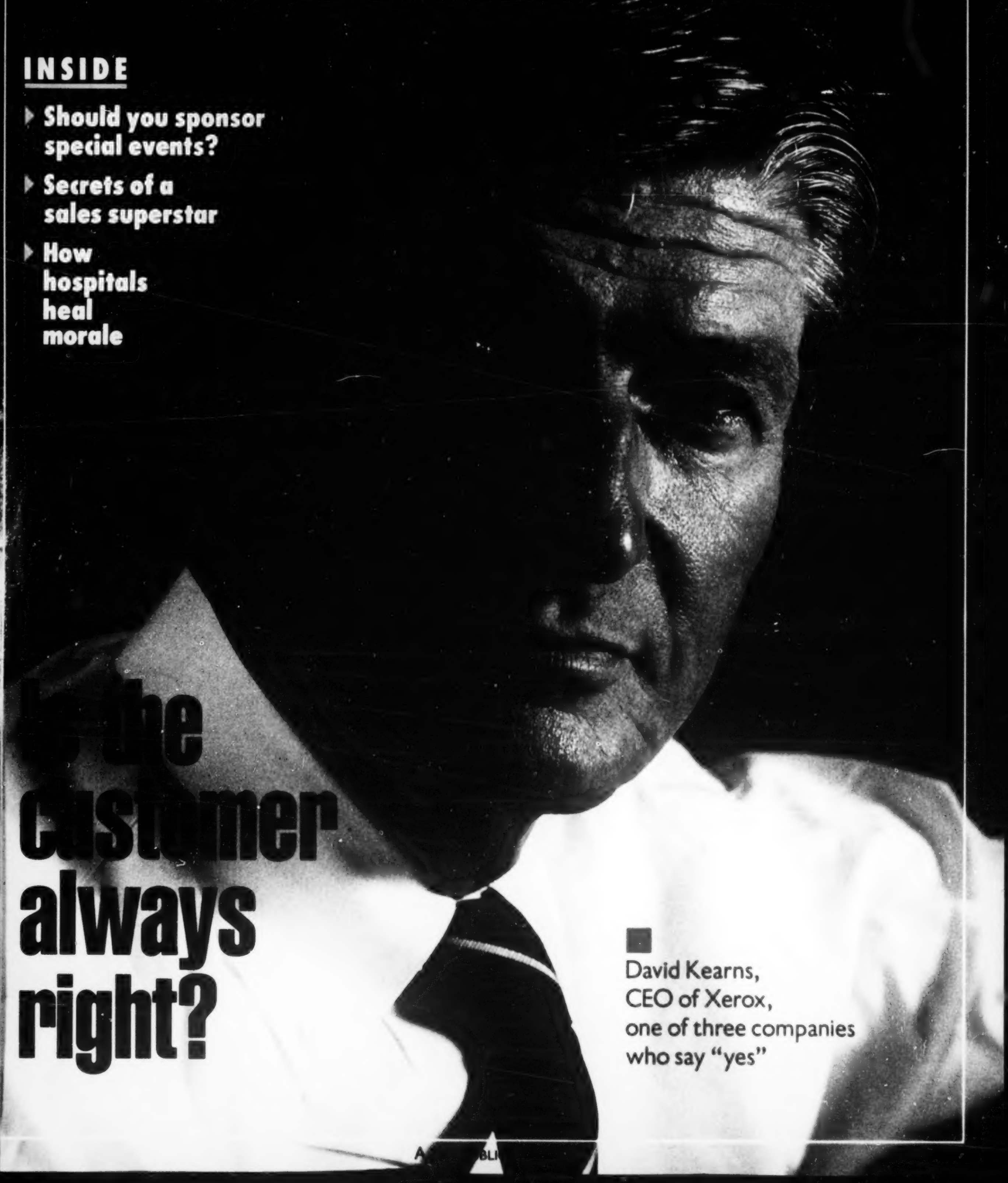
- Secrets of a sales superstar
- How hospitals heal morale



Is the customer always right?

■ David Kearns,
CEO of Xerox,
one of three companies
who say "yes"

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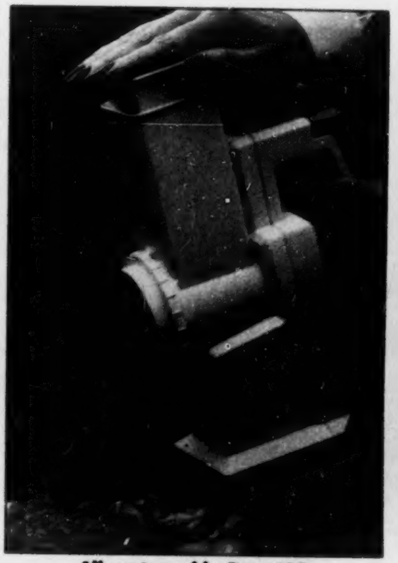

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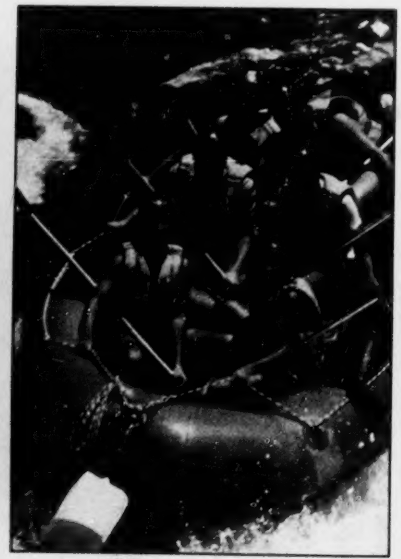


White water. Page 133

Is the customer always right?

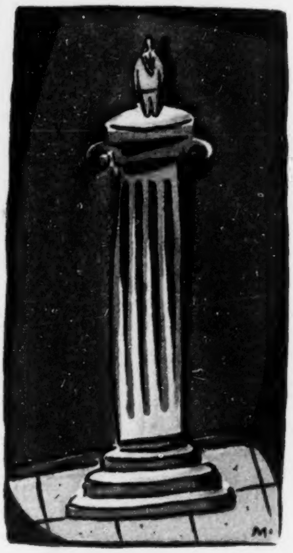
If U.S. firms want to compete in the 90's, the answer had better be "yes." Here, a look at three companies who are leading the way.

BY ERIKA PENZER

Lose your customer focus, and you lose your competitive edge.

So say customer service experts. As products and services proliferate, and as the options for consumers continue to blend and blur, companies will have to turn to exceptional service to distance themselves from the rest of the pack. "It's a matter of survival," says Larry Durham, president of the International Customer Service Association. "When the European market consolidates, American business is going to be challenged from all sides. The only way we're going to be able to compete globally is to be obsessed with satisfying customers."

The three companies profiled here—Xerox, L.L. Bean and Marriott—embrace true customer-centered cultures. Each lives by an omnipresent corporate philosophy and imbues it in its workforce. Each has adopted a total quality process in which customer satisfaction takes the number-one priority. Each has top management committed to total customer satisfaction, even at the expense of the short-term bottom line. Each listens to customers, shaping products and services to meet customers' needs. And each encourages and empowers employees to solve customers' problems on the spot—then rewards employees for doing so.


MARK MATCHO

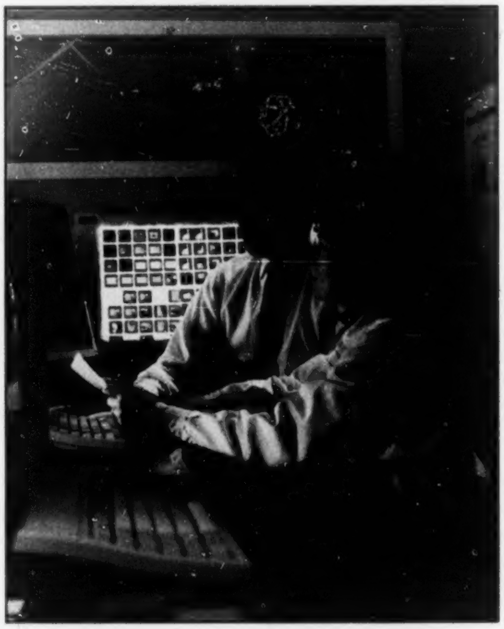
While none of these organizations can claim total customer satisfaction, each has seen a marked difference since adopting a formal customer focus. Every company—large or small, public or private, manufacturing or service—can learn from their examples.

Unfortunately, these three companies still seem to be the exception rather than the rule. Many U.S. companies are far from customer-driven. The ideas are there, but actions have yet to follow, agree observers. "A lot of companies are talking about it and touting their stellar service in their advertising, but not many organizations are really making changes," says Ron Zemke, president of Performance Research Associates in Minneapolis and author of several books on customer service.

Agrees Tony Goland, senior engagement manager at New York-based management consulting firm McKinsey and Company, "Only a small percentage of American business is truly customer-focused—but it's a growing percentage." And Frank Petro, vice president for the information systems group of New York-based management consultants Booz, Allen & Hamilton, says that although about 10 percent of Fortune 1000 companies are cited for their service, only about half of those are using emerging technology to enhance their service. "Without incorporating technology, companies can't expect to be competitive," Petro says.

So what's in it for companies who choose to jump on the customer-service bandwagon? Increased customer loyalty, for one thing: According to data collected by Washington-based Technical Assistance Research Programs (TARP), for every five customers who have a problem, one customer will never purchase that product or service again.

Another (and, some think, more important) benefit? High employee morale. Most customer-conscious companies—particularly these three—take a great deal of care of their own workforce. "[The original] Mr. Marriott's philosophy was, 'If you take good care of your own people, they'll take good care of your customers,' " says one Marriott employee. □



President Paul Allaire troubleshoots with a computer programmer.

XEROX

Defying Wall Street

In the early 1980's, Xerox was in sad shape. Japanese copier manufacturers were putting out pretty good machines "at prices below our cost—we couldn't believe it," says chairman and CEO David Kearns. The company's market share dipped to an all-time low of less than 50 percent (it was nearly 100 percent throughout the 1970's), and profits were plunging. Where to turn?

Kearns, inspired by a trip to Japan and meetings with quality guru W. Edwards Deming, decided to take the company on a quality-driven detour—a bumpy route where customer satisfaction became the center of attention, managers swapped the practice of giving orders for one of making suggestions, and employees took action rather than watched it. It was a daring move for a firm so entrenched in traditional top-down management techniques.

At the beginning, it wasn't an easy transition. In fact, in 1983 Kearns and his henchmen were just about the only people who believed in their mission completely. "Our top 25 people were committed to the quality process and were assigned to work on it—but our employees were still skeptical. It took years to train all our employees in the quality process," says Kearns.

The financial community was equally doubtful: "They wanted results, and at the beginning we didn't have them," Kearns says. "The analysts didn't really understand the process—nor its financial implications—because they weren't involved in the day-to-day operations of the company."

For Xerox employees, reaching the company's current stage hasn't been painless, either. "Initially, it was difficult. It's a very disciplined process, this quality thing," comments Marianne Nahin, national account sales manager for the West Coast. "At the beginning it took a lot more time to do business. But now that the customer focus is ingrained in us, I find that everything I do focuses around it."

Now, seven years later, the corporate philosophy that places customer satisfaction above profits has pervaded nearly every corner of the company. "You can't forget it; it's everywhere," says Nahin. "When you walk into a meeting, it's posted there on the wall. Everything we do is

Kearns took Xerox on a quality-driven detour—a bumpy route where customer satisfaction became the center of attention, managers swapped the practice of giving orders for one of making suggestions, and employees took action rather than watched it.

completely customer-oriented."

With the company's customer satisfaction measurement system firmly in place, Kearns—and Wall Street—can point to specific improvements: The company's primary earnings per share have risen steadily over the past five years, to $6.56 in 1989 from $4.38 in 1985. Recently, though, skies turned cloudy when—simultaneously, it seemed—stock prices dipped and Kearns announced that he will step down as CEO on August 1 and hand the reins to now-president Paul A. Allaire.

"Kearns has been very successful in improving quality on the company's manufacturing side," says Prudential Bache analyst Alex Henderson. "But he's also had trouble breaking Xerox's huge bureaucracy and getting new products out of the lab and into the market." The financial community expects Allaire to cut costs aggressively, Henderson says. Will major cutbacks affect the company's customer service? Henderson doubts it. "I think he'll start by trimming management. Xerox still has at least two extra layers of middle management."

Since installing its quality improvement process, Xerox has learned to listen hard to its customers. The company's Customer Satisfaction Measurement System (CSMS) polls buyers randomly, querying about issues like sales reps' response, service reps' performance, administrative support, billing accuracy and phone encounters. Nahin's group of West Coast sales managers gets these surveys back several times a year and can see exactly where its performance is lacking. "When we get a report back that shows a particular area is weak, we can then ask for a more detailed survey to be done concentrating on that one thing," Nahin explains. These specific reports are then used to target the exact source of the customers' gripe. Anyone, from Nahin herself to district office staffers, can request these detailed reports.

Nahin's group shoots for a 92 percent satisfaction rate, and Nahin contends that the goal is nothing to sneeze at. "That includes our customers' every interaction with the company," she says. But another Xeroid (company employees say it's an affectionate term) disagrees: "If only 92 percent of my customers are happy, that means 8 percent aren't. That's too many."

Ninety-two percent is a target for Nahin's group—some accounts are way above it, and some fall below. For those accounts that don't make the grade, "we put an action plan in place quarterly to try to bring the level up," Nahin says. An action plan might include administering additional surveys, making field visits with the sales rep and his or her manager, and writing letters to the customer identifying the critical areas where the company needs to improve. In some cases, the sales managers hold problem-solving sessions with customers, or form quality improvement teams that include representatives from both Xerox and the customer's firm. In the West, "we've had at least one such team in each account for the past few years," Nahin says.

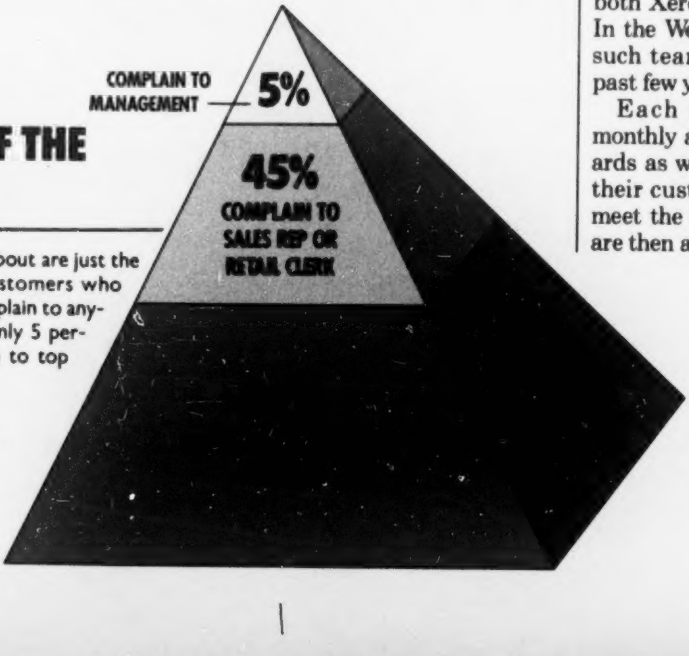
Each sales rep is measured monthly against rigid service standards as well as financial markers. If their customer satisfaction ratings meet the 92 percent goal, sales reps are then asked to surpass that for the following month. Sales reps and their managers also meet monthly for "outlook" sessions, where they discuss customer meetings and their outcomes, local company issues, and global trends within the corporation.

In the past, these global discussions have

■ THE TIP OF THE ICEBERG

The problems you hear about are just the beginning. Half your customers who have problems never complain to anyone at your company. Only 5 percent report the problem to top management.

Source: TARP, Washington, D.C.



One Xerox sales rep says the biggest change he's seen is in the support he gets from management. Customer-service policies that once were scoffed at now are endorsed.

pointed out, for example, that customers in state government offices (Nahin's area serves several) needed smaller copiers that were cost-competitive with Japanese models. Partly because of communications with the major account organization in Rochester (which handles product marketing, promotions and pricing, as well as global suggestions), the company has been able to expand its small-copier line from one machine several years ago to four or five models today.

For Leo Kelly, senior sales executive for the Coastal region's Philadelphia district, the biggest change has been in the support he gets from management. "I haven't changed the way I do business all that much—I was always following up, anticipating my customers' needs and questions, because for me a happy customer was someone who was going to buy from me again," he explains. "But I used to feel a corporate insensitivity to my customer policies. They'd say, 'That's only a small sale, why bother going out of your way?' But now every customer, every sale, every issue is important. My customer policies are endorsed, blessed, by the company."

Nahin agrees. "Everyone feels now like they've got a lot of input," she says. "We're much more empowered. Whereas before we had to go through a long chain of command, now we can make decisions that satisfy smaller problems, make accommodations, negotiate contracts locally. That flexibility has enhanced our ability to do business." In fact, empowerment is a company buzzword: "You have to give every employee power," states Kearns.

Motivating all employees to provide top-notch service in a huge organization like Xerox is no small task, and one the company continues to grapple with. Though recognition awards—plaques, medallions, and framed letters—are common, tangible rewards are less so. "We're working on a gainsharing plan—it's not far along yet, but we're working on it," Kearns says. "We're also working on measuring each individual's job, and when we can do that, we'll have a basis on which to reward each and every employee." That time still is several years away, however, Kearns notes.

But groups within the firm often take it upon themselves to amplify the corporate reward strategies, says Nahin. "My counterpart in San Francisco had a bank contract that involved a tremendous amount of administrative support, and the people did a phenomenal job. They were rewarded with a day-long trip through the wine country, with a gourmet lunch and several wine tastings." Nahin claims her group is trying to do more things like this to show nonsales personnel its appreciation; she writes letters of appreciation and sends copies to supervisors, takes people to lunch and buys Christmas presents out of her own pocket.

Xerox also is tackling the discrepancy between spurring salespeople with exotic trips and high-tech merchandise while offering non-sales personnel little more than a pat on the back. Kearns concedes that the reward gap between sales and nonsales bothers him; Nahin admits it's been an issue in her area as well. And with good reason: "If you're giving color TV's to salespeople for hitting quotas and you're giving lapel pins for good service, you're telling your employees what's really important," says TARP's president John Goodman.

Several years ago, an executive at a large international bank was explaining to Goodman that sales and service were equally important in his organization; in the next sentence, he said that salespeople were rewarded with expensive merchandise and good service earned a small plaque. "He caught himself and stopped short in the middle of a sentence—he realized he sounded ridiculous," Goodman laughs.

But how much have things *really* changed beyond Xerox's executive offices? "Not as much as I'd like," says Kelly. "We do have 'exception to policy,' where we can try to adjust to solve a customer's particular problem. Local management can do certain things. But for the important things—adjusting the length of a contract or issuing more machines, for example—you still have to check with Rochester [one of the company's bases of operations]. For example, I had a customer who needed a machine changed to another model, a slightly more expensive one. It was just a small dollar figure, but I still had to check with Rochester before I could give it to them."

Kelly feels people at the district level need still more autonomy to be able to serve their customers 100 percent. "We have to get good strong people in district management and give them more freedom," he says. "I know it's in the making, but it's not enough yet. What it gets down to now is how well you can write your problem up for Rochester. If the power were in the district, you could take your manager out and show him the problem yourself. There's not a salesman in the world who wouldn't like to be able to walk into a client's office and sell him a solution on the spot. I'd like to be able to take a crack at it myself instead of having to explain it to another manager."

Even Kearns concedes that in a company the size of Xerox, things can't change overnight. "When we first started, it took several years for our employees to start to be convinced that we were really dedicated to this idea," he says. "But our ideal is to drive the decision-making power down as far as possible, so that on a district level our people can do whatever it takes to make their customers satisfied."

Humility often marks the quality-driven organization, and Xerox is no exception. "We've come a long way, but we still have a long way to go," says Kearns. "Winning the Malcolm Baldrige National Quality Award was invigorating, but the Baldrige committee also suggested 500 areas where we could improve." Those areas have been divided among senior management, and a second five-year plan has been laid for the 90's. ☐

Maine Hunting Shoe

■ L.L. BEAN

Tradition In Transition

In a sense, L.L. Bean is a very lucky company. "We've always had a strong customer focus—it came down straight from L.L. himself," says Susan Zimmerman, director of customer service. "When he designed his original hunting boots, he wanted his customers to have something that would really work. He was personally invested in his product and he stood by it."

Executive vice president Bill End agrees. "We haven't had to change our corporate culture at all to meet the '90's," he says. "Companies that are bottom-line focused—financial companies, for example—have the biggest transition to make, and have a much harder time instilling the customer focus."

Zimmerman teaches her service representatives—300 people who handle customers' problems via phone or letter—that their strongest tool in dealing with customers is the company's no-questions-asked guarantee. L.L. Bean will replace any product the customer feels hasn't performed up to snuff, no matter how long ago it was purchased.

But according to recent estimates, this tried-and-true policy has cost the company a bundle. L.L. Bean customers returned $82 million worth of merchandise in 1988—that's $2 million in shipping charges alone—and these figures were up significantly from the year before. Says Bill Shea, vice president of retail sales, "The problem was our methodology. Our customer service policy was *reactive*; we'd do almost anything to fix a situation gone wrong. What we didn't realize was that we had to find a way not to let things go wrong in the first place."

L.L. Bean applied for the Baldrige award in 1988, and though the company didn't win, the Baldrige team pointed out some important kinks in Bean's procedures. "What we realized was that even though we were a customer satisfaction company, we weren't getting our own people involved enough," Shea admits. "The employee component was missing. We were too much of a top-down organization and didn't have enough bottom-up communication or involvement."

Since the Baldrige evaluation, Bean has attacked the total quality process with vigor. Top management has been trained in the quality dogma, working with Harvard professor and quality guru David Garvin. The next step, says Shea, is implementing a quality training program for middle managers, and ultimately all salaried and hourly workers will be trained as well.

Taking advantage of its human resources has proved a substantial task for Bean. "The reason we didn't win the award was that we didn't understand the role of the internal customer," Shea says. "We weren't working together as much as we could." Agrees End: "We've had 75 years of good external customer service, but our biggest change is developing a stellar internal customer focus. I'm looking more internally, seeing where I get information, where I send it, making sure we have the most efficient ways of operating."

The internal customer focus has trickled down several levels. Senior manager of product quality Lou Zambello explains that until recently, his department oversaw six or eight groups involved in product quality. The problem was that none of the groups knew what the others were up to. "The company had expanded so fast and added so many new products over the past five years that we just added a group here and a group there, without integrating them," he says. "We were working so hard independently that we lost sight of what the customer expected from our products. Everyone wanted to do the best job they could, but they didn't have the mechanism."

Now, Zambello has integrated and streamlined the company's quality

L.L. Bean's return policy cost the company $82 million in 1988. The problem? Reactive, rather than preventive, service.

efforts. The product quality groups meet monthly to discuss their progress, and there is a monthly newsletter that reports on product quality issues. In addition, Zambello designed a formal system to feed workers' questions back to the product quality department. "We used to be able to chat about these issues over lunch," Zambello remembers. "But now, with multiple locations and hundreds more employees, we don't have that luxury. We had to find a more formalized way to keep each other informed." Fortunately, he adds, Bean's workers really seem to care about improving the company's products: "They just needed a mechanism to turn their motivation into action."

Tapping the potential of its employees is a challenge Bean is meeting by empowering them to do more. "While we've always used quality circles, they used to be strictly recommendation groups," says Shea. "From now on, they're going to be implementation groups—they'll have full power to carry out the suggestions they're coming up with." Other employee groups are working to evaluate internal customer relationships, reduce return rates, improve response time and forge vendor relationships.

Bean can't satisfy its customers without the help of its suppliers, Zambello points out, so the company has involved its vendors in the quality process as well. There are exchanges where suppliers' inspectors visit Bean's facilities and Bean employees tour vendors' operations. Vendors receive the monthly quality newsletter, as well. Are suppliers receptive to Bean's new-found total quality spirit? "Some are and some aren't," Zambello says. "Some were heading in that direction themselves, and some don't see it at all. But over time, we're going to work with the vendors who are closest to our philosophy."

Each area—retail, mail-order and manufacturing—has its own reward and recognition system, and the internal customer-satisfaction theme is included in more than one place. The retail store has created a monthly internal customer award, given to the person who has done the best job of supporting his or her internal customers. Winners, who are nominated by their peers, get a glowing letter placed in their personnel file, lunch with their manager, $100 and a coveted reserved parking place for the month.

Zimmerman's department bestows monthly spirit awards on "the person who makes us glad to be working here," Zimmerman says. The department hangs a huge banner with that person's name on it, and he or she gets a small version of the banner to hang in their work station.

But employee involvement is only half the battle; customer input is the other half. To kick off the quality drive, Bean held a series of customer focus groups throughout the country

■ THE ESSENTIAL ELEMENTS

When is a company truly customer-focused? When it meets most of these guidelines:

Customers say they're satisfied. If the customer says his or her experience isn't good, the company is doing something wrong, says customer service expert Ron Zemke. Though this sounds simplistic, most companies don't put enough weight on the individual's experience, Zemke says; they tend to think in terms of averages and percentages. Remember that a 95 percent satisfaction rate means that five percent of all customers walk away unhappy.

Employees become problem-solvers. At Marriott, bellboys can change guests' rooms; at Xerox, district managers can renegotiate contracts; at L.L. Bean, phone reps can exchange any item for any reason. "Whatever it takes to make the customer happy, employees should be able to do it and know their manager will support them," says John Goodman of Technical Assistance Research Programs.

Top management sets a good example. If employees don't see management going the extra mile for customers, they won't either, says Zemke.

Customer-service employees have room to grow. If the customer-contact people are stuck on the bottom rungs and there's no career path for them, the message is clear: Service isn't respected.

Employees are rewarded for taking risks. If the only reward is a pat on the back, points out Zemke, the company's commitment and sincerity comes into question. Valuable rewards—putting your money where your mouth is—make it clear you're taking the service issue seriously.

Middle management's role is redefined. Traditionally, middle managers held employees to rigid company policies, but in the visionary customer-focused company, says McKinsey and Company's Tony Goland, middle managers are coaches and facilitators, not controlling taskmasters.

Internal customers are equally important. When the organization takes care of its own, it's that much more prepared to deal efficiently with outside customers.

The company's leader is dedicated, visible and active. Without the support and involvement of top management, agree the experts, no quality drive or customer-focused culture can survive. □

Before embracing the total quality process, Bean had six or seven quality-improvement groups—but none knew what the others were doing.

last fall. The company interviewed 300 current and prospective customers to find out what people did—and didn't—like about Bean's business. "Every company thinks it knows what its customers think is important," Shea says. "But we wanted to start from scratch, to find out exactly what they do want. We were looking for the niches, the competitive advantages, that will give us the opportunity to improve our service."

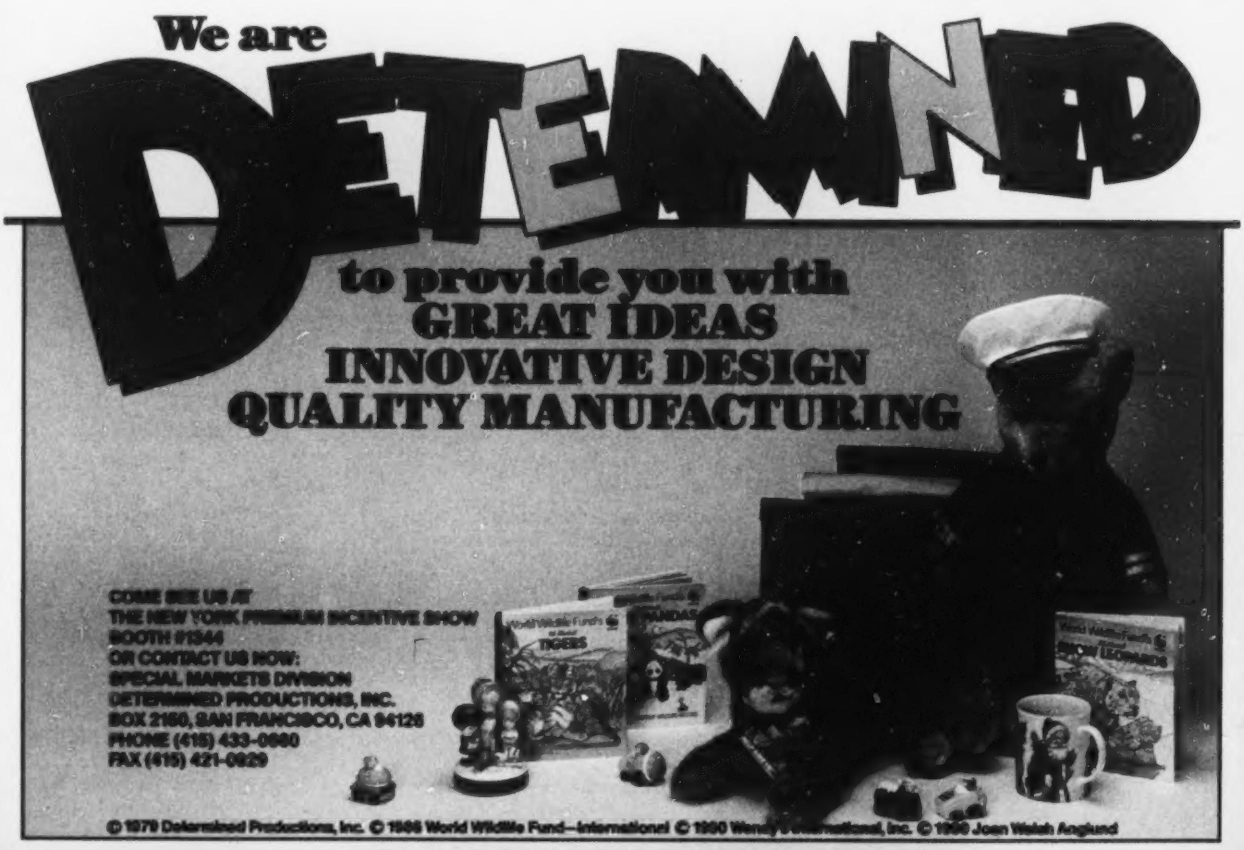
Though most of the results are confidential, Shea does say that customers really liked Bean's sense of tradition and the way it stands behind its products. The company's free shipping policy, too, scored high. The down side? Customers noted that the catalogue's size chart needed an update for today's fuller-cut fashions, and that because of the way items were shown, colors and their names often were hard to match up. These changes were relatively easy to make, and have saved the company considerable amounts on returns. "When we focused on certain products, we found we were able to cut their return rate in half," Shea claims.

The company listens to customers when deciding how to recognize its own employees, too. Zimmerman cites a letter from a customer in the Charleston, S.C., area that lauded an employee who had gone to great lengths to get lamps and other necessities to Charleston just after Hurricane Hugo. "The post office couldn't deliver it and UPS couldn't get there, but the employee kept trying and finally got it there via Federal Express," Zimmerman says. "The letter praised her efficient handling of a difficult situation as well as her creativity, follow-through and empathy."

Though there are no formal rewards in place right now for such deeds, Zimmerman hopes to institute a more extensive reward policy. "We want our people to feel free to take risks, and we have to reward and recognize them for taking risks."

Zimmerman also wants her employees to feel they have the authority to solve any problem. If they are unsure how to proceed, they can confer with a supervisor, "but it isn't necessary," Zimmerman stresses. "The only time they need to check with higher-ups is when they think they have to say no to a customer."

In the ever-more-competitive world of catalogue retailing, Bean's challenge is to keep its prices competitive while maintaining its traditional—but expensive—customer policies. "There are two ways we can continue to keep everyone happy," explains Shea. "One, we can raise prices, be-



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cause we've found that people are willing to pay more for better service. But we can also reduce our expenses through improved productivity. Higher quality means fewer mistakes, which means lower costs."

For 1990-91, Bean's emphasis is going to be on increasing profitability by doing things right the first time, says Shea. But rooting the quality process firmly in the company will take time and involve a significant amount of change. End notes that thus far, Bean has only trained top management, so it's hard to predict how all employees will react to the new focus.

Will the quality drive change the company's personality? "Only for the better," End says, "because we'll be creating far fewer problems and ultimately our customers will be much happier." And Shea hopes Bean will be ready to apply for the Baldrige award again—and win—sometime in the mid-90's. ☐

MARRIOTT

People Power

Marriott's greatest success, says TARP's Goodman, has been in empowering employees to solve customers' problems. An example: About to leave the Marriott in Toronto for the airport, Goodman was told he'd just missed the hotel's airport van. The next one wasn't for half an hour, and Goodman was afraid he'd miss his plane. The bellboy carrying Goodman's bag went to the garage, found the keys to the hotel's other van, and drove Goodman himself. "They've taught their employees to throw away the policy manual and do whatever it takes to solve the problem," says Goodman.

In the hospitality industry, where a large number of workers deal constantly with customers, "a customer-centered company must have frontline employees who have the power—and know they have the power—to satisfy customers at the moment of the transaction," says McKinsey's Goland. "They need to know they're going to get supported from above, rather than criticized for stepping out of line."

As in any large organization, some areas of the company are further along than others. Convincing employees they *can* make decisions on their own proved problematic in several of the company's European and Middle Eastern properties, notes Jill Bausch, regional director of marketing communications for Europe, the Middle East and Africa. "In Eastern Europe, workers say to their managers, 'I'm not getting paid to make these decisions—you are. I don't have to think this hard.' "

"Empowerment is an evolutionary process," comments Rick Goldstein, Marriott's director of training and organization development. "There are some managers resisting it, too—they've worked hard to come up through the ranks and just at the point where they had some power, we're spreading the power among the lower staffers. They're resentful."

Though he feels the majority of Marriott's managers support the direction of the corporate philosophy, Goldstein says that many struggle with how to implement that philosophy; not every hotel's bellboys would take it upon themselves to drive a guest to the airport. But all the hotels are working towards giving associates more decision-making authority. Goldstein, for instance, is in the midst of developing a training program to help managers empower their employees and make managers more comfortable in a coaching and guiding—rather than dictating and judging—role.

Marriott defines "customer focus" comprehensively: "Make sure everyone in the organization focuses on both their internal and their external customers," says John Herold, senior vice president for Marriott Hotels and Resorts.

In the hospitality industry, where customers might deal with ten frontline employees in a single day (and judge the hotel's service on any one of those dealings), employees have to be completely dedicated to the customer service doctrine. For Marriott, that means finding the right kind of people—people who buy into the company's customer commitment. "We

Though most of Marriott's managers support the company's employee-empowerment philosophy, many struggle with its implementation.

interview 15 people for every one we hire," says Herold.

At some locations it's harder to find qualified people, concurs Goldstein, who says the company received more than 3,000 applications when it was staffing the Marriott Marquis in New York. "We encourage our human resources people to be patient, to keep looking rather than hire someone who isn't perfect. In New York, we ultimately found people who met our standards, and they're much friendlier than typical New York hotel employees."

Once Marriott finds the right people, it puts them through an extensive training program. Managers first saturate front-line people with the company's customer-first philosophy, then play out typical interactions and ask the new people to step in with solutions. "We talk about how to greet people, what to do if there's a problem, and how to service people's needs in a hotel," Goldstein explains.

In the past year, the company has refocused its approach around the total quality improvement process, applying manufacturing techniques to its service approach. Isn't measuring service encounters far more difficult than manufacturing processes? Yes, says Goldstein, but the company is committed to learning to do it. "There aren't a lot of service companies out there who are measuring service to the extent we are, so we're having to invent the methods on our own. We're borrowing techniques from manufacturing companies, and we'll have to share secrets with other service companies."

Marriott associates are recognized differently at each hotel for outstanding service; each hotel's management decides how to laud the property's employees. Associates' pictures are posted on bulletin boards at some hotels. Employees who have instituted a new procedure often are videotaped at work, and the tape is circulated to other properties who might benefit from the shared knowledge. Workers sometimes win free stays at other hotels, dinners for two, even turkeys at holiday times.

It's even more important for Marriott to instill and reinforce the customer focus in their general managers. By the time a person gets to the general manager level, the customer culture is pretty much ingrained, says Herold, since 60 percent of Marriott's general managers started with the company as hourly employees: "They're products of our culture," he adds. In addition, managers are rated and compensated based on results of customer service and employee attitude surveys, as well as their property's revenues and profits. ☐

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FACTS SURVEY

Consumer Incentives

Consumer promotions are on the upswing. According to **Incentive**'s most recent survey of 102 companies, 1990 will be a year of increased consumer promotional activity and spending.

In fact, based on their current plans, companies intend to spend 15.3 percent more on consumer incentives than they did last year. In 1989, companies spent $6.1 billion, a 7 percent rise over the 1988 figure.

Perhaps the acceleration in activity is best reflected in mail-in promotions, which hit a median of four campaigns a year, compared to three a year ago. Respondents also indicated they are budgeting more for 1990—as much as 16.8 percent more for mail-in offers than they spent in all of 1989.

Incentive marketers predict a whir of activity on the promotional front.

The same goes for direct premium promotions. While the median has not changed—it remains at four programs a year—spending estimates amount to 13.7 percent more than the dollars laid out a year ago.

Last year saw high levels of consumer promotion in a number of areas. Four industries added hefty amounts to their budgets: Auto parts, tires & accessories rose by 8.3 percent; feed, fertilizer & farm supplies by 11.3 percent; toiletries & cosmetics, 9.9 percent; and retailers, 8.8 percent.

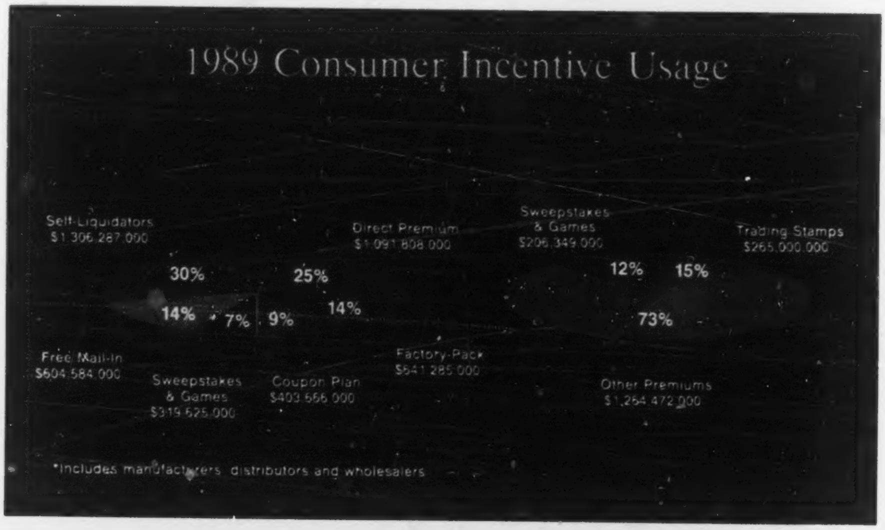
But food products, which account for 37 percent of all product-promotion dollars, added only 3.9 percent. And eight industries—all small users, but important in the aggregate—decreased their consumer promotion spending. The laggards were electrical and lighting equipment; apparel; farm equipment; hardware; housewares and home furnishings; machinery and supplies; paints and varnishes, and sporting goods & toys.

Consumer promotion rarely occurs in a vacuum, and increased activity in this realm reflects a similar pace on other fronts. Survey respondents told **Incentive** that they are planning to spend 18.9 percent more for dealer incentives and 21.5 percent more for sales incentives than they did last year.

These forecasts come from a small sample of users, and they are formed early in the year when there is still time to change plans. In the overall survey, all year-to-year comparisons are derived from budget figures provided by the respondents.

The mail-in category remains a favorite approach, while self-liquidators are seen rising faster (16.5 percent more dollars) than free mail-in offers (13.7). But sweepstakes, contests and games are areas where these marketers predict the greatest expansion, by 25.9 percent over last year's spending.

What will all this activity yield in measurable sales increases for these marketers? Measuring consumer sales



*Includes manufacturers, distributors and wholesalers

Several industries expect strong growth in consumer promotions this year. Among them: auto parts, feed, toiletries and cosmetics.

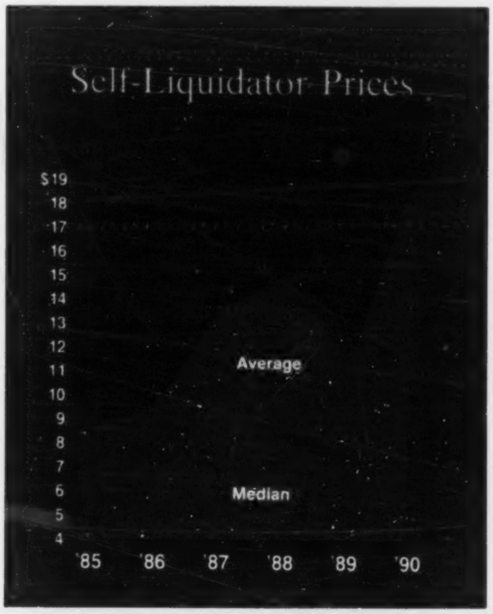
results tends to be more difficult than gauging the success of a trade incentive program. But many users did make consistent estimates. Over a number of years, these surveys have shown results most often in the 18 to 20 percent range. An exception was 1988, when the average dropped to a disappointing 16.1 percent; last year saw a comeback to 19 percent. In this year's study, results slid a bit, to 18.1 percent. Overall, marketers' predictions ranged from 1 to 50 percent, with a median of 15 percent.

In other survey results, color pages in national media offering premiums and sweepstakes from grocery-product marketers remain the most visible face of consumer incentives. As the surveys consistently show, however, other methods have their champions as well. The most common medium of advertising premiums and sweeps is direct mail, chosen by 61 percent of respondents this year. Point-of-purchase displays—usually second in rank—slipped to third this year, used by 29 percent. Second choice now is newspapers, favored by 33 percent of the executives polled. Trade publications are used by 22 percent; TV and radio by 20 percent; on-package advertising, 14; consumer magazines, 8; Sunday supplements, 4, and other unspecified media, 10 percent. Overall, respondents reach their markets through an average of two media types per company.

Users of point-of-purchase materials often consider incentive promotions a great way to increase retailers' acceptance and use of displays. In the most recent survey, respondents indicated they normally expect dealers to use their materials in 32 percent of cases—but they report an average increase of 27 percent in display use during a premium offer or sweepstakes.

These users say direct premiums and sweepstakes are the most effective ways to get displays used. (*See chart, page 64.*) In fact, respondents tend to favor the direct premium to achieve more objectives than any other promotion. Self-liquidators, which are slightly ahead of direct premiums in dollar expenditure, are rated "worst" in most categories. The self-liquidator's relative low cost appears to be its greatest virtue and the reason for its popularity.

Not too long ago, gospel held that the self-liquidator was highly effective in encouraging product sampling. More recently, companies have moved away from using self-liquidators for this purpose, a change attributable in part to the rise of the free mail-in offer, which this year's respondents rank second as a sampling device. Reason: Free mail-ins can induce product trial without asking consumers to pay for anything other than the product itself. The free mail-in offer carried the vote in this year's survey—by 43 percent who consider it best for sampling. The self-liquidator received the least support for that objective.



Free offers also are judged strongest in gaining ad readership—once considered another strength of the self-liquidator.

No such thing as a panacea premium exists, of course. The free mail-in will help get most advertising read and induce a prospect to try the product. But it remains, as these users point out, a dismal failure in gaining attention on store shelves, giving the sales force something to talk about or building good will with present customers.

Despite what may be a somewhat cynical view of their value, self-liquidators remain an important segment of the consumer premium field. The average self-liquidator price quoted is $18.80, compared with $11.64 in the 1989 survey. The median figure hit $8.95, up from $6.95 last year. But these higher prices cover a smaller portion of the promotion's actual cost. Last year they covered only an average of 55 percent, versus 80 percent reported in the earlier survey.

When regarding self-liquidator offering prices, the recurring question arises: "How high is too high?" The survey asked users at what price point they believe response will drop significantly. The average number was $65.80, compared with last year's $54.22. The median, however, landed at a more modest number—$20, up from $17.50. The executives' answers ranged from $5 to $250.

The perception of retail value clearly has an effect on the price consumers will pay, and a majority of

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At what price is a self-liquidator too steep? Marketers tag the figure at $65.80, versus $54.22 a year ago.

users still feel it is important to show a claimed retail value for the offered item. This remains the practice of 57 percent now, down from the 62 percent doing so last year.

If these companies' experience is a gauge, then the questionable practice of charging the consumer extra for "postage and handling" of premiums may be waning. Only 34.5 percent of these marketers said they use this additional charge, down from 41.5 percent a year ago.

When selecting the item, 65 percent of surveyed users prefer that the premium be "related in use" to the offering product; last time, 56 percent held that view. The question of "relation" can be interpreted flexibly, however: A theme relationship or a deft play on words is just as likely to tie premium and product together.

The liquidator's bountiful cousin, the free mail-in offer, raises another issue, notably the relationship of the premium's cost to the amount of retail purchase(s) required to obtain it. Simply put, what does it take to get the consumer to buy, and how does this balance with the dollars the advertiser can afford to spend? This figure has now been on a slight downward trend for four years—from 26 percent of the product's retail purchase price in 1987 and 1988 to 23 percent last year to a present average of 22 percent. Meanwhile, the number of proofs of purchase required of consumers to obtain the premium, after holding at an average of 2.5 for several years, has declined slightly to 2.1.

A somewhat smaller percentage is devoted by the average user to the cost of a factory-pack item. After averaging 17 and 18 percent of the retail purchase price in the past two years, that figure averages 16 percent in this year's survey. The broad range

RESPONSE RATES

MEDIAN NUMBER OF RESPONSES PER 1,000 ADVERTISING EXPOSURES FOR MAIL-IN OFFERS

	PRINT	BROADCAST	DISPLAY	PACKAGE
► Self-liquidator under $10	9	7	20	25
► Self-liquidator $10 or more	5	7	10	15
► Free mail-in offer	17	10	12	11

among these users, however, spans from 4 to 50 percent, with a median of 12.5.

Any of these consumer incentive strategies may be subject to testing before launching a major promotion, if a test method can reasonably duplicate the full-market conditions on a small scale. But respondents cite many reasons for not testing the premium: cost that is considered excessive, inability to match market conditions closely enough, shortage of lead time before a promotion break, unwillingness to expose plans to competitive view—or even, perhaps, a bit of gambler's intuition.

56 percent of marketers who conduct tests prefer consumer interviews.

Any of these reasons may explain the fact that the majority of users do not usually test. The survey finds that 43 percent of the users test their mail-in promotions, and 37 percent test direct premiums.

Item-preference tests are the most common—those that pit a premium against other items in the laboratory or simulated market conditions. Preferably, one item is a control that has been used effectively and provides the benchmark to measure performance of the others.

The most often used testing format? Interviewing consumers, showing them competing items and eliciting opinions and/or indications of intention to buy: 56 percent of respondents who do any testing take this route.

Second choice—more a "laboratory" approach than a market simulation—presents items to a consumer panel. About 28 percent choose this method. A mail offering of the premium is favored by 20 percent, while 16 percent like to use package inserts and another 16 percent favor questionnaires. Fewer than 10 percent indicated they use three other approaches—a store panel test that simulates market conditions; a bounce-back offer mailed with a premium requested by the consumer, or a newspaper split-run ad test in which very similar ads for different items appear in alternate copies of the publication. (The percentages exceed 100 because these marketers use, on the average, more than 1.5 different types of tests.)

The latest survey reveals some good news for test givers. Test accuracy—in terms of forecasting responses to offers—has climbed. The average plus-or-minus variation, which was 22 percent last year and 26 percent for the year prior, has improved to 19 percent. ☐

EFFECTIVE TECHNIQUES

% OF CONSUMER PROMOTION USERS WHO CONSIDER EACH TECHNIQUE MOST EFFECTIVE FOR REACHING EACH GOAL

	► GET SHELF ATTENTION	► SELL-IN TO DEALERS	► BOOST REPEAT SALES
BEST	FACTORY-PACK 29% DIRECT PREMIUM 21%	DIRECT PREMIUM 28% SWEEPSTAKES 14%	DIRECT PREMIUM 29% COUPON PLAN 29%
WORST	FREE-MAIL-INS 1%	ALL OTHERS RATED LOW	FACTORY-PACK 2% SELF-LIQUIDATOR 2%

	► SALES TALKING POINT	► BUILD USER GOOD WILL	► GAIN AD READERSHIP
BEST	DIRECT PREMIUM 21% SELF-LIQUIDATOR 14% SWEEPSTAKES 14%	DIRECT PREMIUM 28%	FREE MAIL-IN 29% DIRECT PREMIUM 15%
WORST	FREE MAIL-IN 7% COUPON PLAN 0%	FREE MAIL-IN 7%	COUPON PLAN 2%

	► OBTAIN STORE DISPLAYS	► SAMPLE NEW USERS	► COST-EFFECTIVENESS
BEST	DIRECT PREMIUM 29% SWEEPSTAKES 29%	FREE MAIL-IN 43% DIRECT PREMIUM 14% FACTORY-PACK 14%	COUPON PLAN 28% DIRECT PREMIUM 21%
WORST	FACTORY PACK 0%	SELF-LIQUIDATOR 2%	ALL OTHERS RATED LOW

How Hospitals Heal Morale

BY REGINA EISMAN

ILLUSTRATION: TOM BLOOM

Stricken with an epidemic of worker indifference, hospitals have begun administering dosages of team-oriented programs and rewards. Officials hope the move will help overcome some demoralizing obstacles:

Specialization. "There are so many specialized groups of employees within a hospital (including nurses, nurses' aides, medical technicians, pharmacists, therapists, orderlies) that they often have difficulty working together as a team and seeing each other's perspective," according to Linda Lancaster, senior vice president of Howard Lancaster Associates, a management consulting firm in Oak Park. Ill.

Lack of respect. For example, "nurses are always going through a professional identity crisis," says Carl Neu, president of Neu and Company, a Lakewood, Colo., management consulting firm. "They have status problems and they don't feel they can control their destiny."

Heavy stress. "When you're responsible for people's lives, it adds a lot of stress to the job," says Ruth Maxwell, marketing director for Katy Medical Center in Katy, Texas. "Stress also is caused by the unpredictability—how many people are going to get sick or have accidents today?"

Work shifts. "One of the most difficult challenges is making the people who work nights and weekends feel that they are part of the institution," Maxwell says. "Communicating to this group becomes harder."

Hierarchal management. While this problem plagues many industries, it can be even more difficult to change the hierarchal structure of hospitals, says Charlotte Dison, R.N., vice president of patient services at Baptist Hospital of Miami. For instance, "many nurses tend to be matriarchal in their management style, mothering their staff rather than encouraging independence," she notes.

Other obstacles to morale include long hours, friction between doctors and nurses, and shortages of medical staff, including nurses, physical therapists, radiologists and pharmacists.

Although these demoralizing problems can affect the quality of patient care, the health-care industry hasn't quite caught up to the rest of the world when it comes to motivating staff. "There are hospitals doing motivation programs, but it's not a widespread practice," Lancaster says. "There are a lot of market pressures on hospitals now, and incentives are needed to improve morale and patient care."

"Hospital workers need to feel that while their contribution may not be exactly the same as the physicians', it's equally important to the overall performance of the hospital," says Neu.

Other consultants agree that there is a need for motivation programs in hospitals, but John Witt, president of the health-care employment company Witt Associates in Oak Brook, Ill., notes that such programs present a common dilemma—developing measurements that accurately gauge the quality of patient care. "Using incentives to improve patient care can be insulting [to employees]," he cautions. "Nurses might resent the attitude of paying her more money because she held her patient's hand more, or giving her a free weekend because she goes around hugging people." Prospective employees should know ahead of time about the hospital's policies so they can decide whether they "buy into its mission," he advises.

The disease: sagging employee morale. The treatment: rewarding workers for making decisions.

Also, hospital management can become caught in a vicious cycle, especially when an incentive program highlights the very causes of low morale. For example, a hospital might have a rigid hierarchy, thus discouraging any moves toward fostering employee decision-making and consequently encouraging feelings of powerlessness and alienation among workers. If the hospital then tries to design a worker-involvement program, that hierarchy could present a big stumbling block to its success, since managers could resist handing authority over to subordinates.

While the problems may sound daunting, there are hospitals actively striving to make their facilities better places to work. They are using programs that include quality circles, gainsharing and suggestion systems, all giving workers the chance to earn cash, prizes and internal recognition. These facilities claim to have increased worker morale, improved patient care and yes, improved profits.

Several facilities point to the use of quality circles as a catalyst for improvement. Team efforts have helped lessen both friction among staffers and also workers' feelings that nobody really listens to them, officials claim. "When the employees work together towards a common goal, it's easier for them to see each other's perspective," says Lancaster, whose firm customizes a team-oriented program called "Managaerobics" for hospitals. "And that has impact on patient care." Topics covered in the one- or two-day seminar include establishing accountability, reacting to change, coaching—rather than bossing—employees, and dealing with different behavior styles.

Quality circles help effect a major attitude change in hospital workers, says Alvin Goldberg, co-author (with C. Carl Pagels) of "Quality Circles in Health Care Facilities: A Model for Excellence" and associate director of academic programs in health care administration at the University of Miami. "When you bring people into a circle, they're telling you how to make the company better, and that makes people happier," he notes. Goldberg, who is said to be the first person to have introduced quality circles into a U.S. hospital, started 40 QC's when he was chief executive officer of Mount Sinai Medical Center in Miami Beach.

"Before we had quality circles, our employees were like robots," he says. "There was no eye contact, no smiling. After the first year, people were much more willing to work together, and our productivity (measured in amounts of work done each day—for example, the number of patients seen by a respiratory therapist, or the amount of laundry done) went up by 5 percent," Goldberg says. (The hospital no longer has a QC program, Goldberg notes: Budget constraints cut the training dollars needed for the program, and the current corporate culture doesn't support it. Telephone calls to the hospital were not

LITTLE THINGS CAN MEAN A LOT

Health-care workers are likely to be motivated by large-scale programs such as gainsharing and pay-for-performance—but smaller recognition programs can be just as effective in making workers feel important. "Anything that increases a person's self-respect is a motivator, and often it's the little things, like recognition or a small gift, that count," says management consultant Carl Neu, president of Neu and Company in Lakewood, Colo.

Katy Medical Center in Katy, Texas, claims excellent results from the recognition program it started three years ago. "Our programs have two goals," marketing director Ruth Maxwell says. "We want to be the employer of choice, and we want to be the health provider of choice."

Patients, visitors and fellow employees can nominate workers for a Blue Ribbon by filling out a card describing a service or kindness that the employee performed, Maxwell says. Once the employee gets a blue ribbon, subsequent awards are in the form of gold stars, or "twinkles," attached to the ribbon. An employee with five twinkles gets a permanent gold star, and five permanent stars earn the worker a gold pin.

The workers who have gotten stars, as well as those who have been recommended by their supervisors, are eligible for the employee-of-the-month award: a brass paperweight, $25 retail gift certificate and free parking spot for the month. One of these 12 people will be employee of the year and will receive a $100 gift certificate and a beautiful trophy.

Katy has surveyed both employees and patients on their level of satisfaction with the hospital, and management believes the promising results are due to a combination of the recognition program and the Employee Stock Ownership Plan. More than 80 percent of the employees said that the hospital was well managed, and 74 percent said Katy treats its employees with respect. The hospital also had a 98 percent customer satisfaction rating (the percentage of patients that said they would seek treatment again at Katy), versus its parent company's average of 95 percent.

Blue Ribbon Service

From People Who Care for You

North Carolina Memorial in Chapel Hill is in its fifth year of the Plus People recognition program, which rewards efforts to improve patient service. A dozen people are selected each quarter through peer and supervisor recommendations. Winners net certificates, pins, internal publicity and a party in their department. At the end of the year, all 48 employees are feted at a dinner theater. "We haven't formally measured results, but we know people appreciate the recognition," says director of human resources Joe Brugnolotti.

St. Joseph Medical Center in Joliet, Ill., also gives monthly and yearly employee awards that include medallions, corsages and a free parking spot for the month. ☐

"There are so many specialized groups of employees within a hospital that they often have difficulty working together as a team."

returned by press time.)

Goldberg, who also is a hospital consultant, says he has been getting more inquiries from hospitals interested in using QC's, which is "an encouraging sign."

One hospital that recently began using quality circles, Baptist Hospital of Miami, currently has 10 teams working on different issues. One team is working on better defining the nurse's role and figuring out what kinds of work can be delegated to nurses' aides. Other teams are looking at the possibility of converting from an hourly pay system to an annual salary system.

"We needed to attract more nurses, and we started thinking about ways in which we might improve our hospital," Dison says. In addition, when the hospital built a new obstetrics unit with a different design and space configurations than the previous one, "the space was unfamiliar, and we thought quality circles would give the nurses a better sense of control."

Currently, work teams involve nurses in the patient care services division, but the hospital is planning to expand the concept to other areas of the hospital, including surgical care and emergency care nurses and respiratory therapists. In the near future, "we want to link the quality circles to tangible incentives," such as merchandise prizes, Dison adds.

In addition to the work teams, the hospital recently developed a nursing position called "senior partner," which brings with it increased responsibility and the ability to participate in the hiring process. "Most clinical staff have nothing to do with hiring the people they work with, which is unnatural," Dison explains. "Senior partners interview and recommend [to management] the people they will work with." Nurses are promoted to senior partner based on work performance.

Because of South Community Hospital's suggestion program, turnover has dropped from 14 to less than 3 percent, and profits have soared.

A variation on quality circles combines them with a suggestion program linked to rewards, something that Irving, Texas-based Epic Healthcare Group did in 1989 with its Epic Excellence program. Workers in the company's 38 hospitals [which include Katy Medical Center] could join a problem-solving team and received points redeemable for catalogue merchandise if their ideas were approved. Even those whose ideas were not used received small gifts just for submitting them. For 1990, the program yielded $20 million in savings, versus original expectations of $9 million, says company spokesperson Janet Howe.

Because the company is 51 percent owned by its employees, it also has an employee bonus system based on individual hospitals meeting annual financial and quality goals. The company has given out several million dollars in bonuses since the Employee Stock Ownership Plan was formed in 1988.

South Community Hospital in Oklahoma City says it has moved from fifth to second place (in number of patients) among five major hospitals in its market as a result of its three-year-old program. Surveys and focus groups revealed that consumers didn't perceive the hospital as a good place to seek care, and employees were unhappy with the work environment, says vice president of marketing and planning Marshall Poulsen. The hospital developed work teams and pays bonuses for cost-saving suggestions, which have included using a less expensive—but very effective—technology for testing cholesterol, switching from branded intravenous antibiotics to oral generic ones and finding a paint that doesn't chip. Starting this year, if the hospital meets or exceeds its budget, each employee will share in the bounty, up to a maximum of $1,500 or 5 percent of the salary, whichever is greater.

Poulsen says employee turnover has decreased from 14 to less than 3 percent. The first year after starting the program, the hospital had a $7 million increase in profit (although, because the hospital is not-for-profit, the money is plugged back into operations), and increases have been consistent since then.

Employee morale has increased, too, says Poulsen. "We've tried to build more of a family atmosphere," he says. "And we give our employees the comfort of knowing that if they make a decision, we will back them. We're not going to fire anyone for a wrong decision."

Some hospitals link their suggestion programs to gainsharing. Because North Carolina Memorial Hospital in Chapel Hill is a state hospital, it benefits from a policy that allows state agencies to have gainsharing programs. Employees whose suggestions are implemented reap 25 percent of the annual cost savings, up to $5,000. The hospital has saved a substantial amount of money through the program, according to director of human resources Joe Brugnolotti.

The hospital also has an employee forum, consisting of 70 people elected by their peers, that acts as the liaison between workers and senior management. The hospital's new program, Guest Relations, will focus on improving relationships within the hospital, "and we expect that to have an effect on patient care too," Brugno-

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To change nursing managers' nurturing style, Baptist Hospital trained them for three days prior to starting its motivation program.

lotti points out.

Also using gainsharing is St. Joseph Medical Center, a 550-bed hospital in Joliet, Ill., which started a participatory management (PM) program called Franciscan Way (named for the Franciscan sisters who own the hospital) last year. When the hospital held introductory seminars on PM for its 2,200 staffers, employees pointed out improvements that they wanted to see in the hospital. Among them: "They wanted more communication among staff members, they wanted to feel that they were part of a team and they wanted respect," says Barbra LeZotte, who coordinates the program. "We felt that participatory management would address these problems."

Phase one of the program includes twice-yearly employee meetings with an open agenda, and a monthly breakfast, lunch and dinner with the hospital president where up to 30 workers discuss issues of concern. There also are employee committees that tackle various hospital issues. For example, the nurse retention committee "is re-evaluating our benefits package to see if we can make it more attractive," LeZotte says.

The hospital is about to launch phase two, a suggestion program in which workers (including doctors) will receive 10 percent of their ideas' annual cost savings, up to $1,500. Suggestions that don't save money won't be ignored: An idea that improves quality will yield a $50 savings bond, and the year's top three quality-improvement suggestions will get $500 each. All suggesters will get a coffee mug and a note in their personnel file.

In 1991, the hospital will survey all employees to gauge the program's success, and "managers will be held accountable for the responses they can control," LeZotte says. "Obviously, they can't control how an em-

"Before we had quality circles, our employees were like robots. After the first year, people were much more willing to work together."

ployee feels about benefits, but they can control how they feel about other things, like how well participatory management is working."

The employee involvement program at MultiCare Medical Center in Tacoma, Wash., includes MERCI (Medical Excellence Requires Concern for the Individual), which incorporates work teams, and the brand-new Quality Service Standards Initiative. QSSI focuses on treating both patients and peers with respect by improving two areas: The quality of the staff's explanations [i.e., of medical procedures and hospital policies] to patients and to each other, and the timeliness of responses to questions, says Dr. Terry L. Smith, director of organization development.

"Each department will establish its own guidelines, one for internal customers and one for external customers," she says. The guidelines will be linked with an existing pay-for-performance system. The hospital also intends to start a gainsharing program in the near future.

Staff doctors on salary will participate in the program. For attending physicians, who are not employees, "obviously, we can't mandate what to do, but we will educate them about the way we plan to practice medicine here," Smith says.

Of course, incentive and recognition programs don't solve all problems by themselves. Enhanced communication plays a big role, and employee-conscious facilities are honing up these skills as well. To ensure effective communication in spite of constantly changing work shifts, Katy—which, as an employee-owned hospital, communicates financial information each quarter—circulates videos to all departments. The hospital also holds quarterly employee meetings and has an employee ownership committee that helps relay information to all workers. To change nursing managers' nurturing management style, Baptist Hospital trained managers for three days prior to initiating its program, and it conducts ongoing refresher training.

Budgets play a major role in determining the scope of motivational programs. Since Medicaid put a ceiling on insurance reimbursements in 1983, hospitals have been under more strain, notes Poulsen. "Workers are thinking, 'The doctor ordered five tests for this patient,' and they know that the hospital is getting reimbursed for very little of it, that the bottom line and therefore their bonus is being affected. There's not much they can do about it."

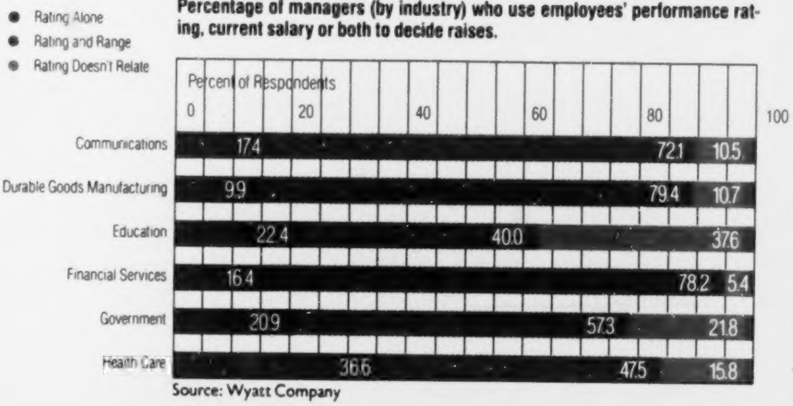
According to the Washington-based Wyatt Company's Performance Management Survey 1989, money was more of a problem for the health-care managers who have implemented performance management programs (defined as a system that uses a set of job standards, links pay to performance, incorporates cash or other rewards and monitors performance on an ongoing basis). When asked about the impediments to a PM program's success, 50.8 percent of the health-care managers said "not enough money," versus 37 percent of all managers. In other categories, however, the health industry was on a par with others—for example, 35 percent of the respondents said there was no objective measurement system; 35.5 percent of the health-care respondents cited this problem.

On a positive note, more health-care respondents said they used performance alone to determine salary increases—36.6 percent, as opposed to 17 percent of all the managers. More than 47 percent of health-care managers used a combination of performance and the employee's current salary range to determine raises, while 71 percent of all respondents used this combination. And when asked about changes being considered in their PM systems, 46.7 percent of health-care executives cited "introduction of incentives," versus 40 percent of all respondents.

Although hospitals may be constrained in raising salaries, several consultants note that people who pursue health careers are not in it for the material gains. "People go into health care for non-monetary reasons," says Sandy Lutz, Dallas bureau chief for Modern Healthcare magazine. "If people are encouraged to be part of a team, they're likely to stay even if the hospital across the street raises salaries." ☐

Determining Employee Raises

Percentage of managers (by industry) who use employees' performance rating, current salary or both to decide raises.



Source: Wyatt Company

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NORDSTROM'S BLUNDER • WHY INSTANT-WINS WORK • NY SHOW REPORT

JUNE 1990

INCENTIVE

MANAGING AND MARKETING THROUGH MOTIVATION

What's wrong with BIG-LEAGUE INCENTIVES

86TH YEAR, VOL. 164, NO. 6

INCENTIVE

JUNE 1990

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ADVERTISING SUPPLEMENT

THE CORPORATE CONNECTION

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INCENTIVE (formerly Incentive Marketing/Incorporating Incentive Travel) covers the methods used by organizations to motivate customers at all levels to buy and employees to work more effectively.

Cover photo: Michael Zegaris

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FROM THE EDITOR

THE CORPORATE CONNECTION

BY BRUCE BOLGER

For more than 10 years before joining **Incentive** magazine, I held various management posts for other business publications. During that time, I occasionally had the responsibility for buying business gifts and incentive awards for customers and employees. I found the task rather cumbersome, because though my editorial responsibilities put me in touch with numerous segments of the business world, I had never heard of incentive representatives, distributors or retail incentive divisions.

After joining **Incentive**, I learned that for decades sales and marketing executives had turned to the incentive channel to purchase awards and business gifts. I learned about incentive companies and sales promotion agencies that help companies improve performance through motivation and promotion programs. I discovered the existence of incentive representatives and distributors, and retailer and direct-mail catalogue incentive divisions that could supply awards and special services, such as drop-shipping to recipients and promotional material.

It occurred to me that many other executives outside of sales and marketing also might be in the dark regarding the incentive business—an idea that was confirmed by a random phone survey we conducted of executives with cash incentive budgets.

So, to help educate corporate America about the incentive channel, **Incentive** has created The Corporate Connection, a cooperative effort of leading incentive suppliers. Enclosed in this issue, starting on page 37, The Corporate Connection details the many sources through which your company can buy incentive awards and programs. It also includes catalogue sheets from leading suppliers that you can use to order awards.

The Corporate Connection is not a new incentive catalogue designed to compete with those already on the market; it's designed to educate newcomers about the incentive business and to give them an opportunity to try it. Once they know about the business, they will know who to call the next time they need awards.

We have enclosed The Corporate Connection in an issue of **Incentive** for the benefit of recent subscribers who may not know about the incentive channel. Tens of thousands more will be mailed to executives who do not subscribe to the magazine.

The purchase of awards is only a small part of what it takes to motivate customers and employees—which is why executives should be aware of an industry ready to simplify the process.

Bruce Bolger

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NON-SALES INCENTIVES

Merchandise use surges, yet users prefer a mixed awards bag.

EMPLOYEE MOTIVATION

There's both good and bad news on the non-sales incentives front. Growth in total spending has increased only slightly, but one category, merchandise, is having a stellar year.

According to **Incentive**'s 1990 FACTS survey of non-sales incentives, overall spending rose by 4.6 percent. In addition, the average cost of an incentive award dropped slightly: Respondents tag the price at $345, just a dollar less than in 1989's study, but the median has tumbled mightily—to $50— compared with last year's $75.

Merchandise is the only award category showing growth this year, up 14.5 percent, and the statistics are supported by respondents' comments about their own award programs. A Western utility company, for example, says it is doubling this year's budget in order to award more merchandise. A Midwestern machinery manufacturer has allocated more than 90 percent of its budget to merchandise in its safety program, sprinkling in a few cash awards as well. "We have seen significant improvement in safety performance because of the award program," a spokesperson says.

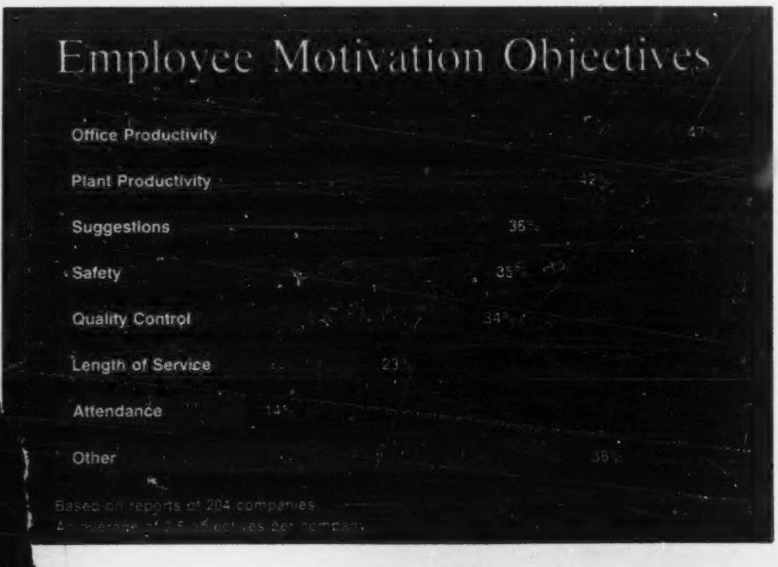
One big reason companies may be increasing their merchandise awards: the Tax Reform Act of 1986, which made merchandise particularly attractive as prizes for safety awards. Under the law, merchandise valued up to $400—and more in some cases—presented in the guise of safety and length-of-service awards is tax-deductible to the company and excluded from employees' taxable income. (A bill now in Congress would extend tax advantages to productivity awards as well.) Cash awards, however, are not deductible and must be reported as employee income.

In spite of the increase in merchandise awards, cash still represents the largest single award category and is used by 57 percent of the firms surveyed. This reliance on cold hard dollars has been declining, however, and the most recent survey shows programs using non-cash categories outnumbering campaigns that dispense cash.

Most heavy users of cash awards also include some merchandise and travel prizes, according to the survey. About 35 percent select merchandise items, 32 percent buy plaques and jewelry, 27 percent offer travel and 25 percent use incentive award catalogues.

One respondent, the Mann Packing Co. Inc., Salinas, Calif., a broccoli grower and packer, displays a typical award mix in its incentive programs. The firm uses a variety of merchandise, travel, recognition and cash awards for 250 production and service employees. Merchandise dominates productivity-based programs, while incentive travel concludes service-oriented campaigns. Cash accounted for less than 10 percent of the company's awards this year.

Mann's food-service division director, David L. Stidolph, says program results are excellent. "Our attendance has improved, as well as our individual safety records," he says. "Our workers played a key role in lowering insurance [premiums], such as worker's compensation." The



Based on reports of 204 companies
An average of 2.5 objectives per company

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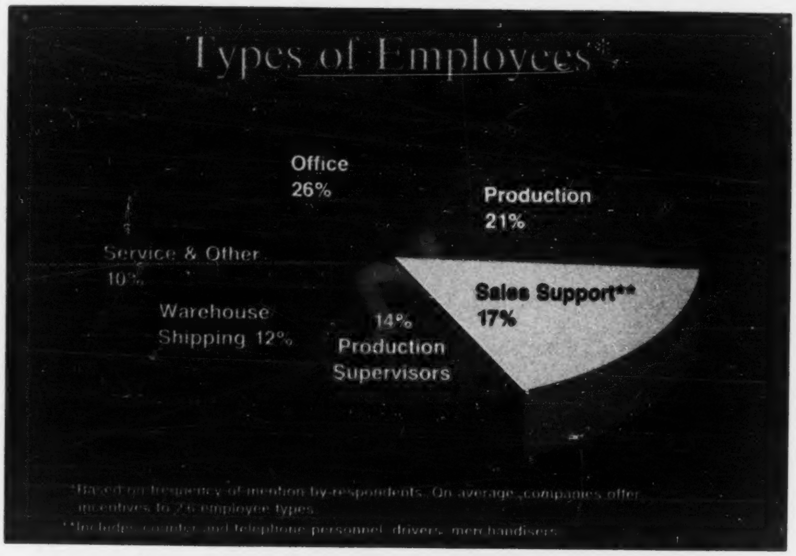


*Based on frequency of mention by respondents. On average, companies offer incentives to 2.6 employee types.
**Includes counter and telephone personnel, drivers, merchandisers.

From offices to factories, most non-sales programs are taking aim at productivity.

company now believes it can achieve a perfect safety record, "which before incentives was deemed almost impossible," says Stidolph.

Although more employees participated in award programs in this year's survey, a smaller percentage of participants actually earned awards. An average of 76 percent of a company's employees had the chance to win awards, an increase from the 59 percent reported a year ago. The change could be attributed to the fact that these companies are somewhat larger than the sample used last year. But the average number of employees earning awards, however, dropped to 42.5 percent from last year's 46 percent.

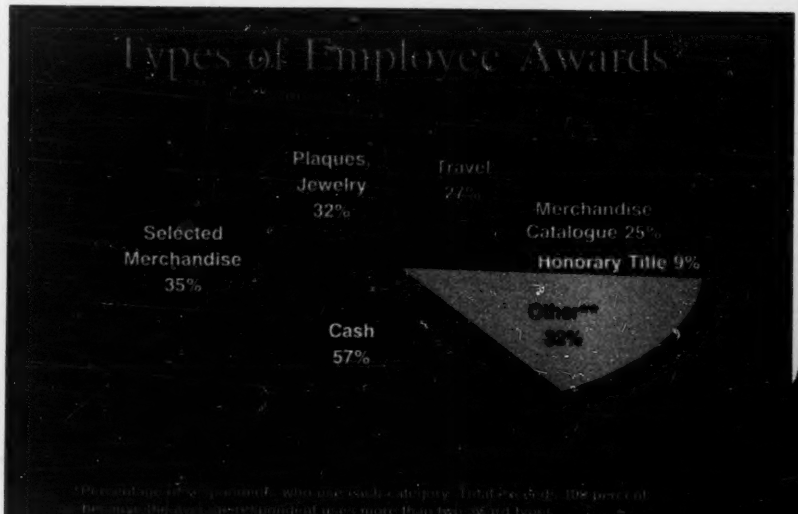
The dominant objectives for nonsales incentives remain productivity-driven. Forty-seven percent of respondents target increased office productivity; 42 percent aim at plant efficiency.

The survey revealed that companies who increase productivity via incentives often observe other results too, such as a boost in the quality of products or services. "The use of employee motivation awards has increased the level of production and quality throughout our plant and office," claims Suzanne Zaccone, president of Graphic Solutions Inc., Burr Ridge, Ill. "Using a clearly structured plan—complete with attainable goals—has offered our employees the opportunity to see where we are, where we are going and how we will get there. Knowing that there is a 'pot of gold' at the end of the rainbow seems to be an incredible motivating tool. We have also noticed an increased awareness of cost savings and time savings, and a more cohesive team effort."

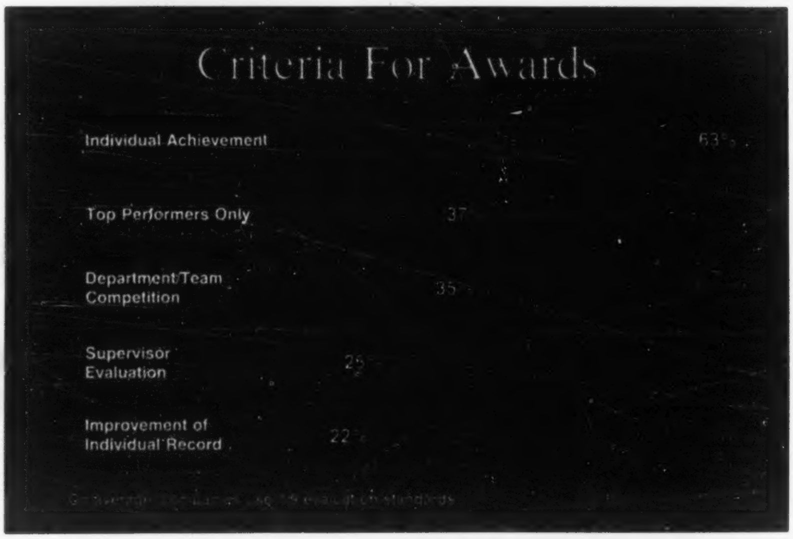
A specialty-chemical manufacturer, offering both merchandise and cash awards to 2,000 office and plant workers, also has witnessed big improvements: "They now go out and look for problems to solve," says an official.

Incentives have also been influencing employee loyalty, some firms report. Alloy Founders Inc., a Maumee, Ohio, machinery manufacturer with 40 employees, has produced this benefit with a very modest award budget for merchandise and plaques. "We use employee incentives to recognize service time so that employees feel appreciated and so that new, younger employees see that the company can provide long-term security," general manager Gregory C. Dozer says. "Our industry requires a great deal of job training—five years and up—[for workers] to become efficient and productive. We can't afford to expend a great deal of time and energy on short-term employees."

In other survey findings, companies noted that while award costs usually take a small slice out of a company's overall operating costs, they tend to bring about large payoffs. In some cases, results are immediately evident—in such areas as reduction of insurance rates, or waste elimination through quality control. Typical example: An executive at a Midwestern insurance company relates that merchandise and travel awards have spurred the office staff



*Percentage of respondents who use each category. Total exceeds 100 percent because the average respondent uses more than two award types.



to make insightful productivity suggestions, and he adds that while the program cost is low, "we have experienced an improvement in quality control, fewer errors and a feeling of job satisfaction from doing well and being recognized."

All 800 employees at Jewish Home and Hospital, Bronx, N.Y., are involved in two six-month campaigns each year to promote suggestions, safety and attendance. Merchandise and recognition awards range from $10 to $50 in value and are won by 10 to 15 percent of the workers. An executive reports that this modest program has led to "better employee relations and attendance—an increase in 'feeling' about the institution and the patients we serve."

The criteria for selecting winners, naturally, varies widely from company to company. Respondents report using an average of almost two measures per company. Individual achievement is the measure of choice, employed by 63 percent of respondents. Thirty-seven percent set overall goals and select achievers who reach these, while another 35 percent reward teams, dividing the workforce by small groups or departments. Supervisors' evaluation—certainly a more subjective approach— is chosen by 25 percent, 22 percent reward individuals on the basis of improvement over their previous records, and 11 percent prefer evaluation by other, unspecified measures.

Companies that reward sales-support personnel report take a somewhat different tack. "It has been very difficult for us," reports Larry L. Primavera, president of Ervin Supply Corp., a Chattanooga, Tenn., wholesaler, "to come up with programs that award inside personnel other than outside sales and order-department sales. We now take 50 percent of what we will spend on a promotion and put it into a fund for a drawing for all employees except salespeople, and the other 50 percent is used to reward the person selling, whether it's inside sales or outside sales."

The Ervin program targets office, counter, warehouse and other service people, appealing for office productivity, service quality and suggestions. Three-quarters of the awards are merchandise and travel, the rest cash. They range in value from $5 to $65, but there is a $1,500 travel prize. About half of the 45 employees earn awards, says Primavera, and "it has caused a lot of excitement in our company, since everyone has an opportunity to win a trip or grand prize."

Most companies in the survey promote their incentive plans actively through several channels, using an average of almost 2.5 of five ways listed in the questionnaire. Seventy-five percent make announcements at employee meetings, 51 percent hang notices on bulletin boards, 43 percent rely on supervisors, 43 percent feature campaigns in company publications and 20 percent mail information to employees' homes. Also, 69 percent of respondents report staging continuous award programs, although they usually take aim at different objectives; the remainder use short-term campaigns that run a median of eight weeks, twice a year.

When the time comes to dole out awards, the majority of respondents make the most of it. Sixty percent bestow them during company-wide gatherings; 43 percent do so during department meetings. Some 41 percent publish information on winners in company publications, 34 percent post the news on bulletin boards and 11 percent issue press releases. About 30 percent make private presentations.

Although the buyers of non-sales award programs vary from company to company, the final decision seems to waft upward, into top-management offices. This year, 59 percent of respondents said the final word on purchasing awards is made by the company president or other top manager. Last year, 66 percent named top management, indicating that more companies may be delegating the responsibility to middle managers. Division or department heads make the decision in 23 percent of all companies, human-resources managers in 12 percent, and plant or production managers in 7 percent. ☐

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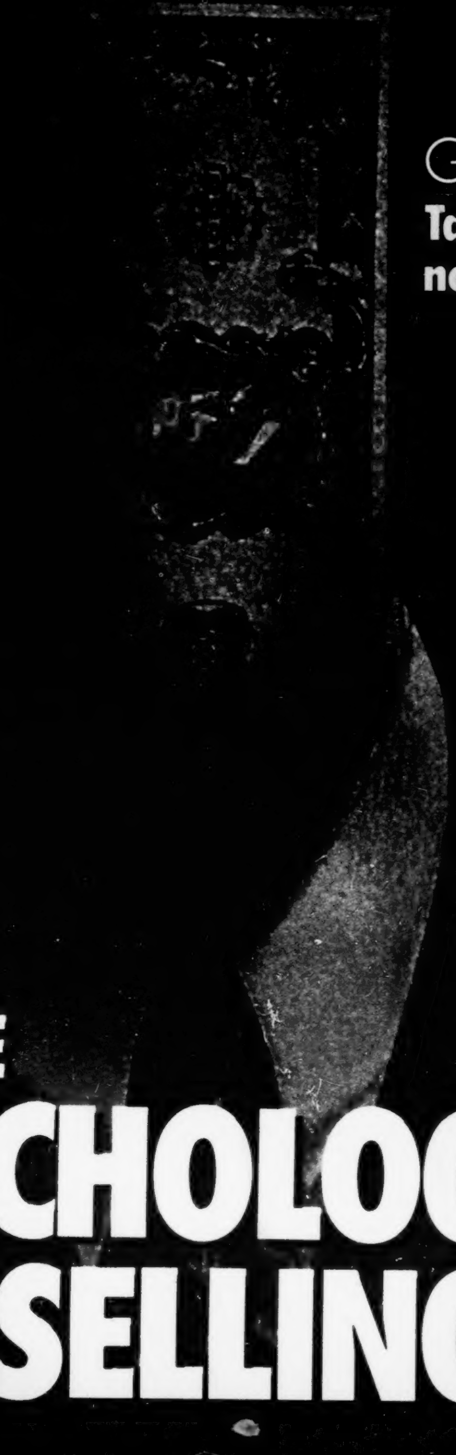
INCENTIVE

MANAGING AND MARKETING THROUGH MOTIVATION



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New ways to lure agents

ENVIRONMENT
Pros & cons of 'green marketing'

GOLDEN OLDIES
Tapping the nostalgia craze

THE PSYCHOLOGY OF SELLING

SPECIAL SUPPLEMENT
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A BILL PUBLICATION

86TH YEAR, VOL. 164, NO. 7 JULY 1990

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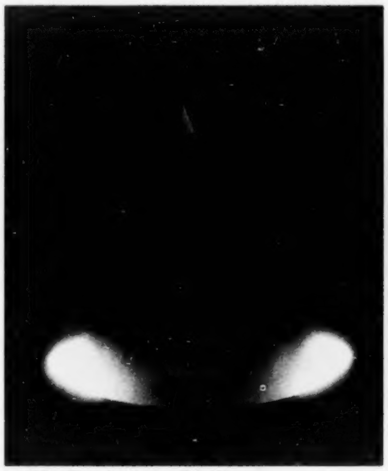

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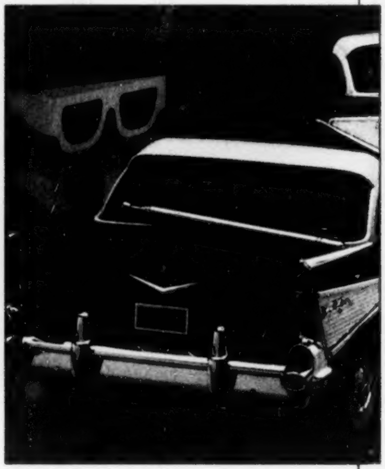

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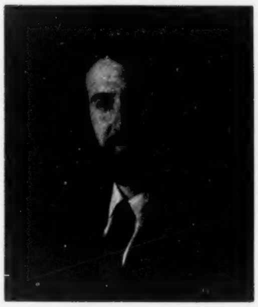
FROM THE EDITOR

THE RUST BELT REVISITED

BY BRUCE BOLGER



Have you heard anything in the media lately about the Rust Belt? Only a few years ago, you couldn't pick up a paper or watch the news without hearing about plant closings and the crumbling of America's industrial heartland.

The media may have forgotten about what happened in the Rust Belt, but the people who live there haven't. At least, that's the impression I got during recent visits to Cleveland and Akron.

During a taxi ride, the driver told me that he had worked at a tire factory for 20 years before losing his job in a plant closing. "In the end, you have to blame management," he told me. "They never took the steps that were needed to keep those jobs." When I pressed him for specifics, he said, "You never saw so much waste in all of your life. There was no emphasis on quality whatsoever. The word of the day was production, production, production. It didn't seem to matter how many defects we pushed out as long as we met those quotas."

Behind the factory where he worked, he claimed, lay an enormous pile of defective tires spewed out by a production line slow to respond to machinery foul-ups. I suggested that the employees must have played some role in all that inefficiency.

"Oh, sure," he said. "A lot of those guys came to work every day just to collect a paycheck. But the company never gave us any incentive (his word) to do better, to do more." The money was good, he assured me, but employees got the same pay and benefits no matter what they did.

An office worker I met later that day told a similar story. Her husband also had worked for a tire company before a plant closing cost him his job. She complained that her husband's company had repeatedly asked him to take pay cuts with the promise that the sacrifice would preserve jobs. "But they never seemed to do anything to rectify all the other problems at the plants. They called in all these experts from outside, but they never asked the people who worked there how to make it work."

Has the business world forgotten the Rust Belt? Did America put this episode behind it before fully understanding what happened? Is it possible that American businesses could have competed better had they motivated and empowered workers?

Or was the Rust Belt the result of an inevitable economic cycle? A failure to invest in new technology? Union intransigence? Cheap overseas labor? Or all of the above? Do our top business executives, our nation's policy leaders, know the real causes? Could it happen again in other industries—in ones that seem impregnable now?

Incentive will address these questions in an upcoming feature story. Stay tuned.

Bruce Bolger

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BUSINESS GIFTS

Companies are spending more on gifts for major customers and employees. Our survey report tells why.

When it comes to business gifts, more and more companies are taking to heart the old adage: It's better to give than to receive. **Incentive**'s latest gift-giving survey shows that generosity is growing. Companies plan to spend 9.5 percent more on business gifts this year than in 1989, marking the highest rise in nine years.

That would raise spending by $155 million to about $1.79 billion, up over last year's estimated $1.63 billion. The last gift-buying "spree" was recorded in 1981, when estimated usage soared by 18 percent. Usage rose about 8 percent in each of the next three years, but gift giving since 1985 has been relatively calm, rising between 2.7 and 6.7 percent each year.

The latest survey of 374 gift buyers indicates that about one company in four is buying more expensive gifts—but management is cutting back the number of people receiving them. Some 23 percent of respondents say they spent more per gift in their last purchases, and 25 percent expect to spend more this year. But the median gift-list size is down a bit, to 107 names from 125 names in last year's survey.

Respondents tag the median cost per gift at $20, the same as a year ago. The average cost, however, dipped from $88 to $57. While the median reflects a conservative adherence to tax rules—$25 is the maximum that can be deducted—the average shows that a considerable number of buyers choose to ignore the limit and, presumably, absorb the tax consequences of spending more.

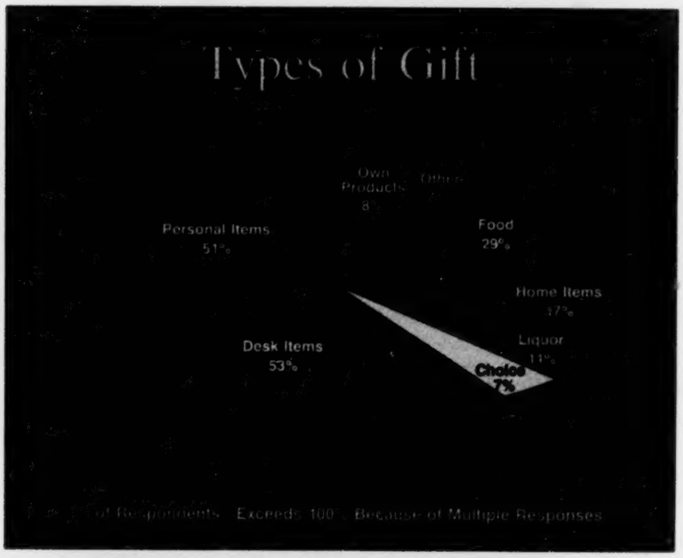
The largest single category of recipient? Major customers, as always, favored by 65 percent in this year's survey. Other recipients include: employees (42 percent), other customers (31 percent), prospects (19 percent) and stockholders (3 percent).

FACTS SURVEY

Christmas remains the top gift-giving period, with 74 percent of respondents wrapping gifts during the yuletide. New Year's, Thanksgiving, birthdays and company anniversaries are also popular occasions, picked by anywhere from 4 percent to 11 percent of executives. Actually, the second leading season mentioned is "other occasion," selected by 42 percent of respondents for this year. Such occasions include plant visits, trade shows, seminars, sales calls, company outings and meetings.

For example, one automotive-parts manufacturer uses several hundred gifts—ranging in cost from $7 to $12—as a "leave-behind memento of a visit, to leave the client/customer with a positive image of our company because of the utility of the business gift."

Lower-cost items are used by a Northeastern wholesaler for "reminder value." The director of marketing explains,



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Desk items and personal gifts, most with a corporate imprint, are popular with gift buyers.

"They are used in conjunction with direct sales calls to encourage customers or prospects to remember our company name when they need products we can supply."

Gifts also reward customers for making a visit, according to Frank D. McDonough, vice president of sales at the Amerex Corporation, Trussville, Ala. He gives out desk and personal items "for customer visits to manufacturing facilities and [for] some special occasions. It's our company's way of thanking customers for their loyalty and for taking the time from their business week to visit."

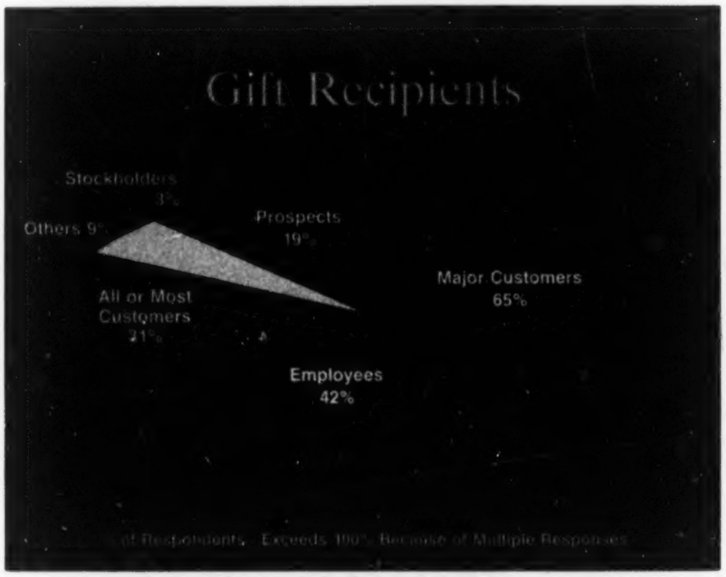
A West Coast maker of industrial chemicals turns the tables on vendors by presenting them with fairly expensive home and decorative items. According to an executive at the company, the practice bolsters rapport with major vendors "and attempts to somewhat equalize the gifts they give to us."

Respondents cite desk items as the gifts of choice (53 percent), with personal gifts a close second (51 percent). Food items are used by 29 percent, home or decorative gifts by 17 percent, and liquor by 14 percent. Eight percent give their own products, and 7 percent offer a choice from a catalogue.

Desk items offer clear advantages. At the General Color & Chemical Company, Minerva, Ohio, ceramic division manager Earl F. Breese III points out: "We give business gifts to put our name in their offices. If they need something now, our gift serves to jog their memory about our fast service. When it's time to reorder, our name and phone number are, hopefully, literally at their fingertips."

Similarly, a New York television production executive distributes a vast variety of gifts to customers and prospects, both at Christmas and during product launches. Most are custom-designed items with the company's imprint. "In the competitive television programming business," he says, "a creative and impactful gift clearly raises awareness among our customer base and enhances our image."

Certainly, buyer awareness grows when a company name or logo is imprinted on a gift, and 69 percent of surveyed executives say they prefer giving imprinted items. Only 30 percent personalize items with the recipi-



ent's name or initials. Generally, the larger the gift list and the more diverse the people on it, the less likely it is that the item will be personalized.

Company-imprinted personal items are used throughout the year by Daniel R. Bradshaw of the Lord Corporation, Erie, Pa., manufacturer of industrial adhesives. "I give gifts to customers and business associates as an appreciation of their efforts in selling our products or using them," he says. "When a new, large account is landed, I'm sure to reward the efforts of all involved—even the workers on the floor."

While gift recipients are of many types, they clearly do not include our survey respondents to any significant degree. The questionnaire asks how many gifts the executive personally receives each year; the present group receives a median of four gifts, one fewer than in last year's survey. Ironically, some say their companies have policies prohibiting acceptance of gifts.

How widespread are such policies? In this survey, the users told **Incentive** that they find anti-gift rules in an average of 27 percent of companies—with a median of 15 percent. This factor has remained relatively constant in our surveys, despite reports by some exec-

▶ Who does the buying?

Top management	65%
Sales/marketing management	26%
Advertising/promotion management	7%
Product/merchandising management	3%

▶ When are gifts bought?

January	9%
February	7%
March	7%
April	7%
May	5%
June	15%
July	11%
August	15%
September	26%
October	37%
November	30%
December	30%

▶ Sources of gifts

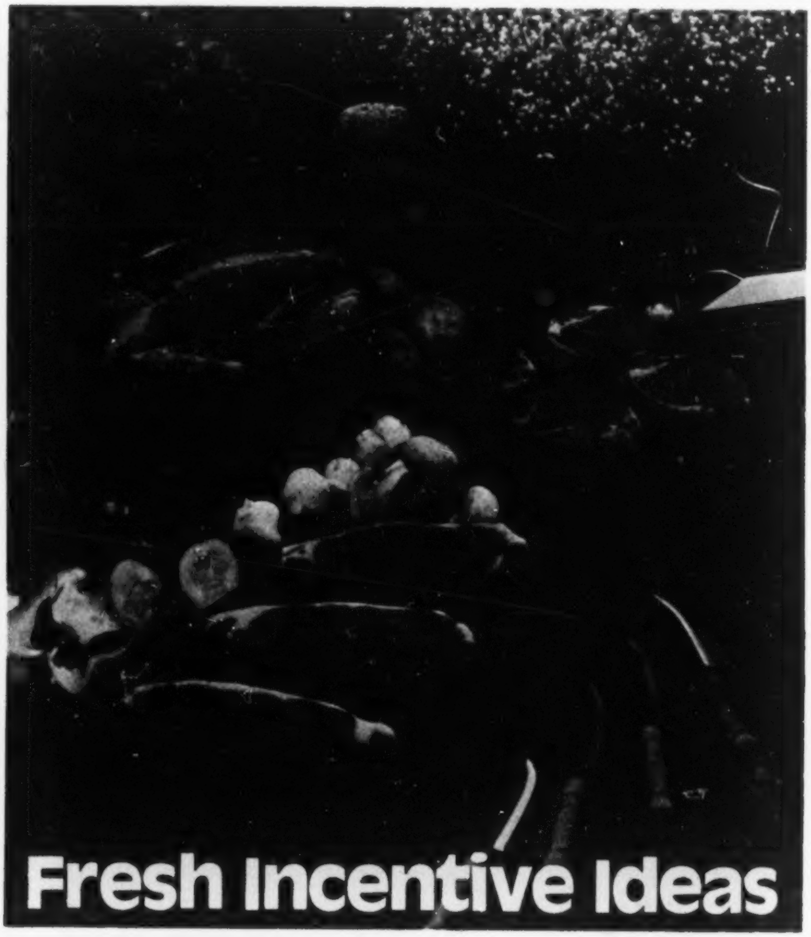
Direct from manufacturer	47%
Wholesaler or distributor	24%
Incentive representative	28%
Advertising specialty counselor	29%
Mail-order firm	13%
Retail store	13%
Incentive firm, jobber, stamp company	16%

▶ How are gifts delivered?

Salesperson	61%
Parcel delivery service	35%
Executive	31%
Mail	25%
Messenger	8%

▶ Where are gifts given?

Recipient's place of business	74%
Recipient's home	24%
Donor's place of business	24%



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utives that the incidence of such restrictions has increased: 39 percent said so in this year's survey. However, many add notes indicating a smaller problem than the numbers suggest. Government agencies, for example, are the largest area for anti-gift regulations. And while major gifts may be frowned on, smaller items under $20 or $25 are generally acceptable.

Higher-priced gifts are not unusual, however, and not generally considered evil. Some are given infrequently, for special reasons. A Midwestern machinery distributor who spends $50 to $150 for gifts, mostly desk items, for major customers, explains: "Most of our business gifts are given in recognition of length of service as a distributor or to a customer principal in recognition of a long-standing relationship."

Continuity of the business relationship is recognized by Art Bermingham, an account executive at Maritz Inc., an incentive company in Marietta, Ga. He gives moderately expensive personal gifts, he says, "as a thank-you for the continued relationship, regardless of the current level of business between a company and mine. Most of my clients are not in my [geographic] area, so other types of recognition (i.e., lunches, entertainment) are not possible."

Most gifts reach their destinations through salespeople. This is a reflection of the growing trend to use business gifts for specific sales-related reasons rather than the pure good will ascribed to the practice in the past. Survey respondents tell us that fully 61 percent of gifts are given to customers by salespeople. Executives, once the principal bearers of gifts, now figure in the practices of only 31 percent. Others, of course, are sent by mail. And some companies use more than one means of reaching recipients.

CONTINUED ON PAGE 114

TOP BUSINESS GIFTS

Item	Percent
Food gifts	30%
Clocks/watches	22%
Pens/pencils	20%
Calendars/diaries/desk planners	19%
Apparel/caps	11%
Desk sets	9%
Electronic items	9%
Glassware/crystal	9%
Coffee mugs	8%
Wine/liquor	8%
Attaches/portfolios	7%
Calculators	7%
Golf items	6%
Knives	4%
Books	3%
Home/decorative	3%
Luggage	3%
Sporting goods	3%
Trips	3%
Trophies/plaques	3%
Cameras	2%
Flowers/plants	2%
Gift choice/certificates	2%
Housewares	2%
Jewelry	2%
Key chains	2%
Note pads	2%
Personal grooming items	2%
Rulers	2%
Tools	2%

Percentage of respondents selecting each item

The Best Gifts you'll Ever Give!
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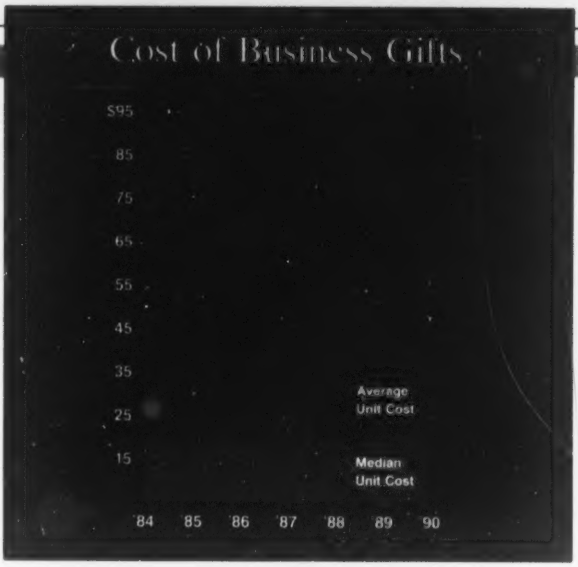
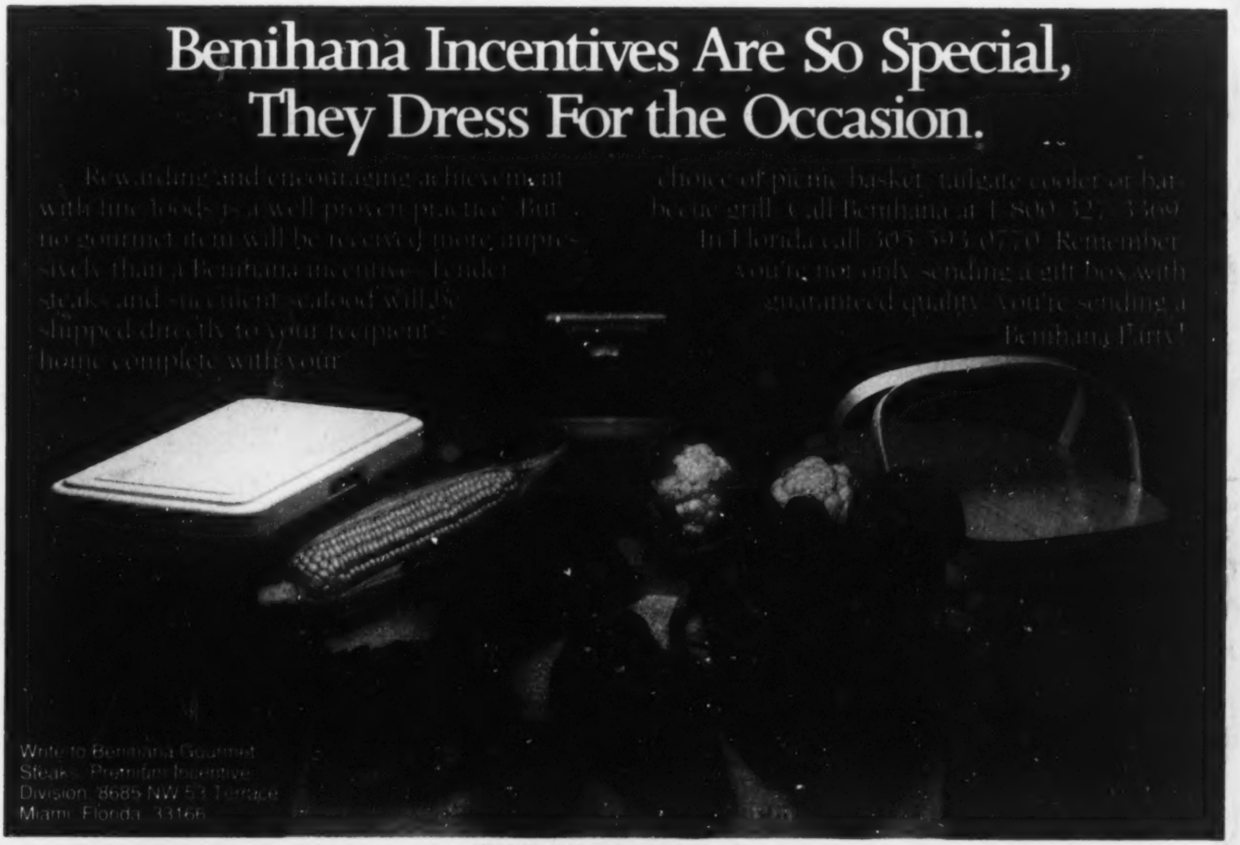


The underlying question that always attends business gifts is whether they exert undue influence on buying decisions: Do they verge on "bribery"? The survey asked whether the executives believe their gifts have ever "improperly influenced" a customer's buying decision; only 9 percent recognize this possibility. On the corollary question—whether gifts they received have been intended to influence them improperly—13 percent concede that might have been the case.

But most gift buyers negate such impressions with words like "good will," "rapport," "care" and "thank you." Says Erick Zwick, resource manager of Northeastern Consulting, Dayton, Ohio: "I give gifts because the client will see my gift and be reminded of our personal relationship and then use my product because it is also of high quality. A benefit is rapport, [which personalizes] the fast pace of doing business. Clients like to know they are cared about as people too."

An Eastern industrial chemical manufacturer who gives a few $25 personal gifts to major customers states: "I view it as good will—a way of saying, 'Thank you for being a good business partner, and it's a joy doing business with you.' It is important to me that good customers are not taken for granted."

Nicholas Park, regional manager of the Simmons Supply Company, Portland, Ore., gives personal gifts—golf items, chocolates and games—as well as food and liquor to his top customers at Christmas and on birthdays. It is "a means of expressing appreciation for the business my customers choose to give me," he says. "If they perceive I care about their business, they are right. I want them to see that. That is the benefit, plus the fact that it solidifies the relationship we have, which includes their buying from me." ☐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SEPTEMBER 1990

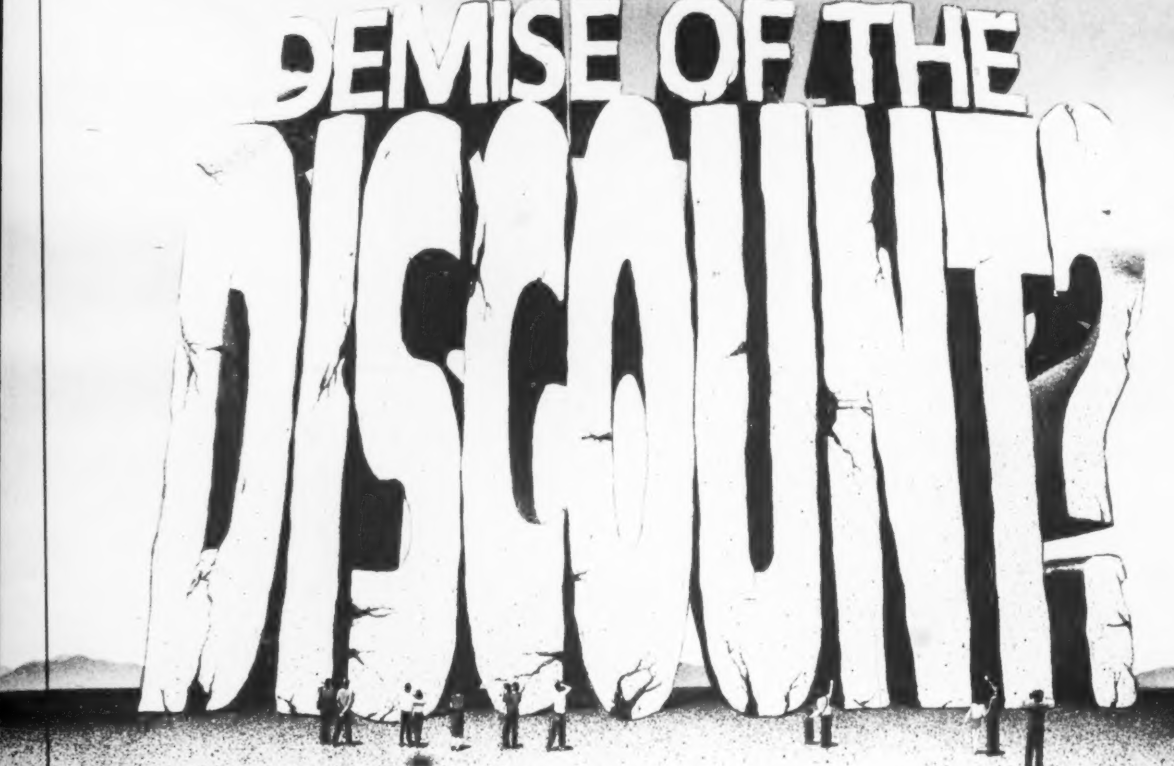
INCENTIVE

MANAGING AND MARKETING THROUGH MOTIVATION

SELF-ESTEEM SEMINARS:
DO THEY MOTIVATE?

HOW TO MEASURE
CUSTOMER SERVICE

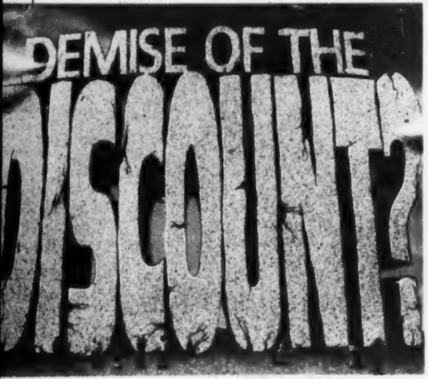
NEW BUILDING BLOCKS FOR
BRAND LOYALTY


DEMISE OF THE
DISCOUNT?

A BILL PUBLICATION

86TH YEAR, VOL. 164, NO. 9
SEPTEMBER 1990

INCENTIVE



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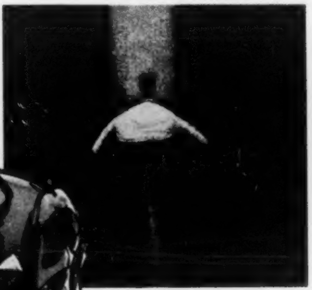

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INCENTIVE (formerly Incentive Marketing/Incorporating Incentive Travel) covers the methods used by organizations to motivate customers at all levels to buy and employees to work more effectively.

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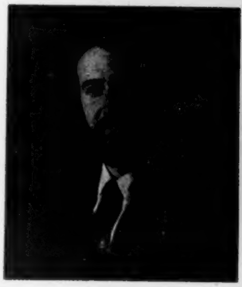
FROM THE EDITOR

WHITHER THE DISCOUNT

BY BRUCE BOLGER



The demise of the discount? This provocative question, addressed in this month's cover story, clearly overstates the case. Obviously, there is no immediate end in sight for the business world's most powerful tool for stimulating sales. But, as the article suggests, today's discounting strategies have run into trouble and gradually may be replaced by new strategies that more clearly fit the needs and psychologies of consumers.

The dangers of the old discounting strategy became apparent to department stores and car makers in the 1980's. Department stores traditionally based their pricing on a two-tiered strategy: setting their markups high at the start of each selling season and slashing them at the end. Auto makers followed a similar approach: confronting consumers with sticker shock at the start of the model year and then luring them with rebates and interest rate reductions on loans.

Does the strategy work? You already know the answer. Department store customers have become so spoiled by discounts, they don't even wait for the traditional sales. They go to their favorite mass merchandisers, who offer the lowest prices year-round. Car buyers have no alternative source for cars, so they flock to their local dealers only when car makers offer particularly good price inducements or, more rarely, a particularly hot product.

What are the alternatives to discounting? This month's cover story gives you ideas from the experts. Here's my perspective: Clearly, consumers respond to a year-round low pricing strategy such as the one mass merchandisers follow. Who wouldn't? But does that mean that only companies who offer rock-bottom prices will survive? No. Research, such as that conducted by the Strategic Planning Institute, Cambridge, Mass., clearly shows that customers will pay more—on average 10 percent more—for products with high perceived quality.

So, the real answer lies in a year-round "value" strategy using regular but selective "specials" to reinforce the value message. Under this scenario, companies eschew the across-the-board discount approach. Instead, they turn to added-value promotions that offer consumers the chance to get two for the price of one, win valuable prizes, or get selected products tied to a current fad, popular film, sport or music group.

True, the old discount strategy offers the benefit of simplicity. The new one calls for complex management skills—like balancing costs and service—plus the imagination and resolve needed to carry out value-added promotions.

Bruce Bolger

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FACTS SURVEY

SALES INCENTIVES

Executives plan to spend bigger bucks to reward their salespeople this year.

American marketers may well be on the way toward pumping half a billion dollars more into sales-force incentives this year. That's the chief message in **Incentive**'s most recent survey, in which executives predicted pouring about $5.7 billion into incentives in 1990.

The projection represents a 9.6 percent increase over 1989's incentive budget of $5.23 billion, and is powered primarily by an expected increase in travel spending, which soared 12.9 percent in respondents' estimates. Expenditures for merchandise, meanwhile, were predicted to rise by 5.8 percent this year.

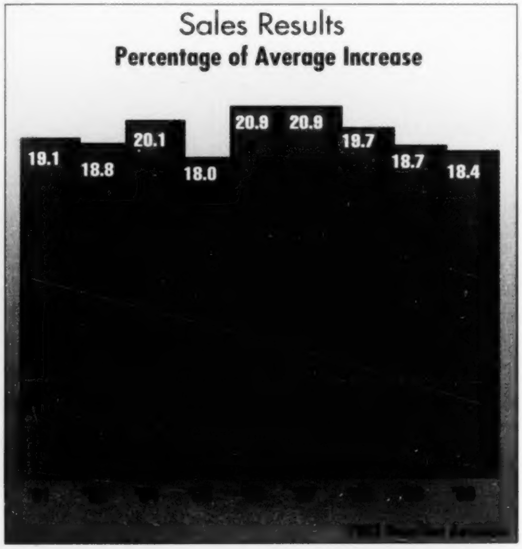
Some more positive indicators: More than two out of five companies have inked bigger budgets for sales incentives this year; 46 percent of respondents plan to spend more for merchandise and 41 percent plan to pay more for trips. Only 7 percent indicated they would spend less for merchandise, and 9 percent said they would tighten their belts on travel awards. All figures emerge from a survey in which 262 executives divulged their 1989 expenditures and 1990 budget plans.

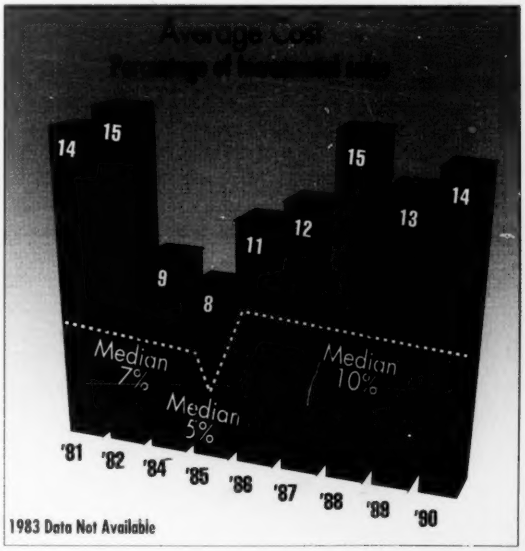
Results show that the anticipated spending increases certainly weren't due to higher costs. The average cost of running an incentive campaign has risen by only 1 percent, they said, now taking up 14 percent of incremental sales. The median cost of incentive programs still holds at 10 percent of incremental sales.

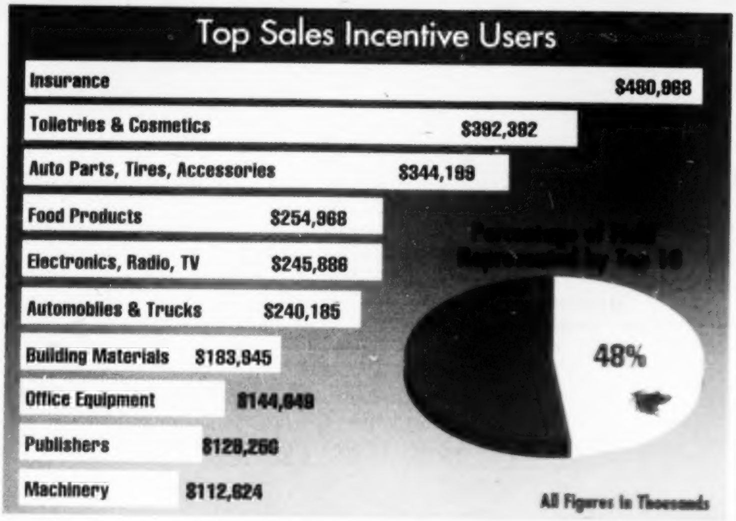
Also, the average sales increases netted by incentive programs remained about the same, inching down by three-tenths of a point, to 18.4 percent from 18.7 percent. Among other things, respondents report, that means it's taking a few more winners to achieve sales objectives: Qualification rates climbed from 37 to 40 percent. Thirty percent of participants were qualifying for travel awards, up from 27 percent last year, while 47 percent were winning merchandise (up 1 percent).

All these salespeople were winning awards for hitting a number of key objectives. The most popular one, naturally, is dollars, expressed as "increased overall volume." That motive, however, has lost ground in almost every survey in recent years, and in this one it fell another four points, from 63 percent to an all-time low of 59 percent. Introducing new products—another oft-stated objective—continued to gain strength; it is favored by 47 percent of those surveyed, followed by the goal of selling new accounts, preferred by 44 percent. The seven other listed objectives (see chart) complete the spectrum of marketing needs.

Few companies concentrate on one objective at a time; this year's executives listed an average of three different goals per program. Likewise, the majority of respondents used an incentive campaign to push more than one product or service. Forty-eight percent of respondents target selected groups of products, while 40 percent support







their entire lines. Only 12 percent said they zero in on single products.

The frequency of incentive campaigns has remained about the same. Surveyed users continue to run a median of two programs a year (especially when they offer merchandise prizes or a combination of merchandise and travel awards); if users offer travel awards exclusively, they run an average of one program a year.

Types of awards	
Single premium or group of related items	56%
Individual travel award	43%
Merchandise selection from incentive house	29%
Group travel award	34%
Own catalogue	16%

Merchandise suppliers	
Wholesaler or premium jobber	45%
Direct from manufacturer	44%
Full-service incentive house	22%
Manufacturers' representative	29%

Travel suppliers	
Make own arrangements	59%
Full-service incentive house	28%
Travel carrier or hotel	19%
Travel/tour wholesaler	19%

Final buying decision	
President, CEO, executive vice president, general manager	57%
Director of sales or marketing	34%
Director of advertising or sales promotion	5%
Product manager or merchandising manager	4%

Certainly the range and mix of awards varies widely. Travel remains the award of choice—by 36 percent of respondents—with merchandise a close second at 33 percent. Cash is preferred by 31 percent of the surveyed marketers.

The survey indicates that the average cost of a merchandise prize among this year's respondents is $337, down from $370 in the 1989 survey; the median stayed at $100. Travel buyers have seen that average drop from $2,458 to $2,020, with the median also declining from $2,000 to $1,750.

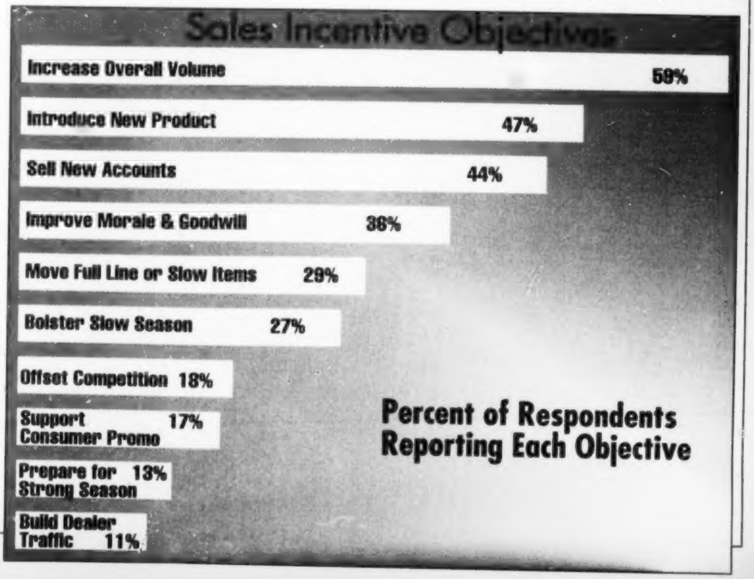
When it comes to choosing the right awards, the cash vs. merchandise vs. travel argument rages on. Most cash users, for example, also employ merchandise or travel awards or both, but they still appear drawn to the greenbacks, apparently acceding to the stated preferences of salespeople, many of whom speak up for cash if they are asked.

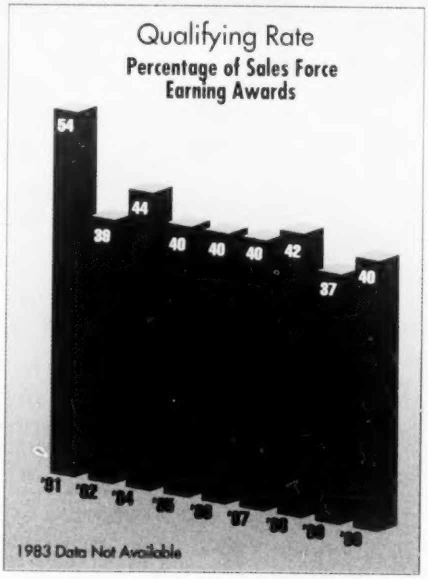
"Day in, day out, cash is still the item that turns most people on," declares James L. Call II, senior vice president of marketing at R. L. Herndon & Associates, an Indianapolis insurance firm. "It's not that I agree; however, as a marketing executive, it's my job to get the results my company needs. Therefore, if I can't be creative enough to turn them on with something special, I stick with cash. God knows, I try with merchandise and travel."

Eugene T. Glon, executive vice president of Mortite Inc., a Kankakee, Ill., hardware firm, strongly believes that cash "gives winners the option of doing whatever they prefer or choose without being locked into a canned program." An Ohio food executive agrees: "Cash is the fairest and most acceptable incentive for our salespeople. There isn't enough flexibility in merchandise programs."

While cash has its advocates, the other 69 percent of respondents favoring non-cash alternatives took a different stance—mainly, that prizes are more easily dramatized and promoted. Whether they know it or not, these users said, salespeople respond better to non-cash motivation.

According to Chris Rollins, director of advertising and public relations at Frederick Underwriters Inc., Frede-





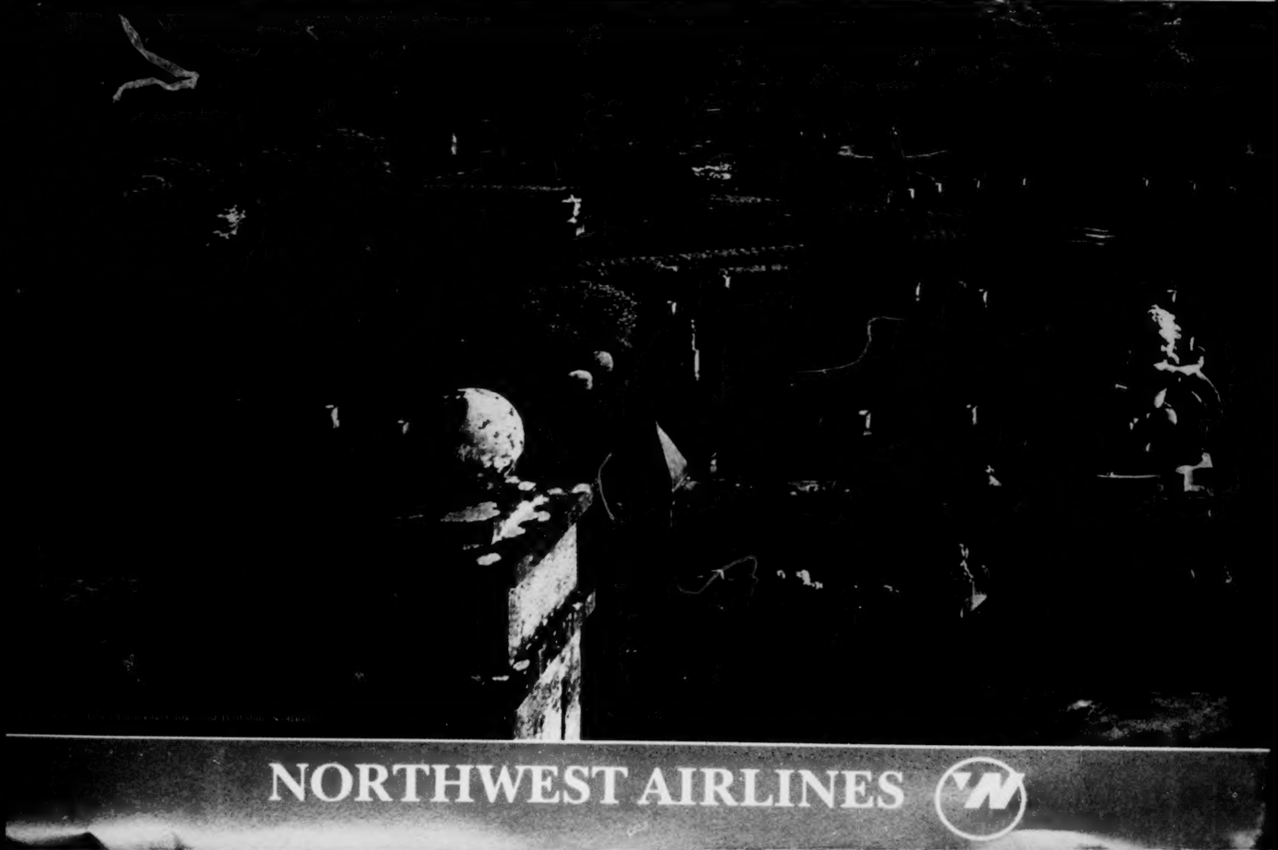
rick, Md., "Cash is not a genuine motivator. Travel has a certain magic—allure, the ability to strike a spark." A mobile-home manufacturer in Kentucky sees a different kind of magic: "Cash is paid for working. Travel forces our heavy hitters to take time off, which is good, because they are so committed you practically have to make some salespeople take time off."

The personal relationships forged by group travel have a special attraction for some executives. Robert E. Keith, president of Affiliated Paper Cos., Tuscaloosa, Ala., finds travel a good motivator because "world-class travel is an item many would not spend personal monies for. It provides a product otherwise not experienced. From a business standpoint, it provides a forum for corporate executives to build on relationships through first-class shared experiences and time together—lasting value."

Demographics also play a role in the award decision-making, claim other respondents. Bruce W. Ingraham, vice president of sales for Dolly Inc., a Tipp City, Ohio, manufacturer of toys and nursery decor, explains, "I have mostly younger sales reps (20 to 40 years old), and the lure of travel is greater than merchandise. A few of my older reps are well traveled and for them it's the merchandise, or more importantly, the recognition that is the prime motivator. I will never, never use cash—there is no redeeming value or long-term benefit whatsoever."

Merchandise, too, has its champions. James L. Rose, president of Unisearch Inc., an Orange, Calif.-based executive-search company, feels that "because people can see and touch the merchandise as the contest is running, it creates more excitement and better production in the long run." Merchandise, a brewer executive adds, "is in evidence long after cash and travel awards are only a memory, and usually merchandise awards are ones that the salesperson would not normally buy."

A final word on merchandise, courtesy of a southeastern distributor who is boosting his merchandise incentive budget: "Once cash is spent, the relationship of the winner and company is no longer visible. Awards from catalogues last a long time and main-



tain a relationship."

In this year's **Incentive** survey, respondents' salespeople spanned all segments. Company-employed salespeople were the largest group, targeted in incentive thrusts by 69 percent of the firms. Wholesaler or jobber salespeople followed at 29 percent, and independent sales reps at 28. Retail sales personnel were the objects of 18 percent of users' incentive campaigns, while direct sellers (door-to-door or party-plan) figured in only 2 percent of the marketers' efforts.

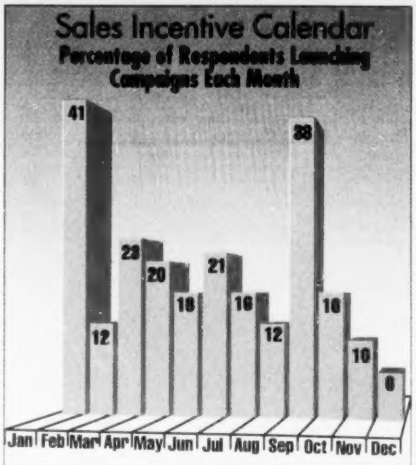
To promote to these people, survey respondents claimed they added an average of 22 percent (up from 18 percent) on top of the merchandise or travel purchases—thus, for every $1,000 spent for awards, another $220 was needed to sell the program.

Selecting awards and promoting programs are two critical roles performed by incentive planners, but full-blown programs require much more in the way of legwork. Respondents noted that the incentive-planning process lasts about as long as the qualifying sales period, sometimes longer. Users of merchandise programs took 15 weeks to plan the campaign and another 15 weeks to run it. Travel programs take longer: Preparation averaged 28 weeks, selling time 27 weeks.

What measurements are most commonly applied to sales incentive programs? About 48 percent of surveyed executives compared sales quotas to the previous year's, and 39 percent tied quotas to a sales forecast—which may or not have a direct relationship to the past year's results. The remaining 13 percent used an immediate previous period as the quota base.

This year, executives said they started doling out award credits when salespeople reached an average of 97 percent of quota—about 4 points higher than in last year's survey. Maximum credit was reached at an average of 116 percent of quota—when there was another qualification level.

Respondents named five ways in which overall program performance is measured. The most common measure is total units or dollars sold, a benchmark employed by 67 percent of all firms. Percentage of salespeople reaching quota is the preferred measure of 44 percent. Less popular, but still important, criteria are increased market share, 29 percent; profit on incremental sales, 24 percent; and branch or district performance, 12 percent.



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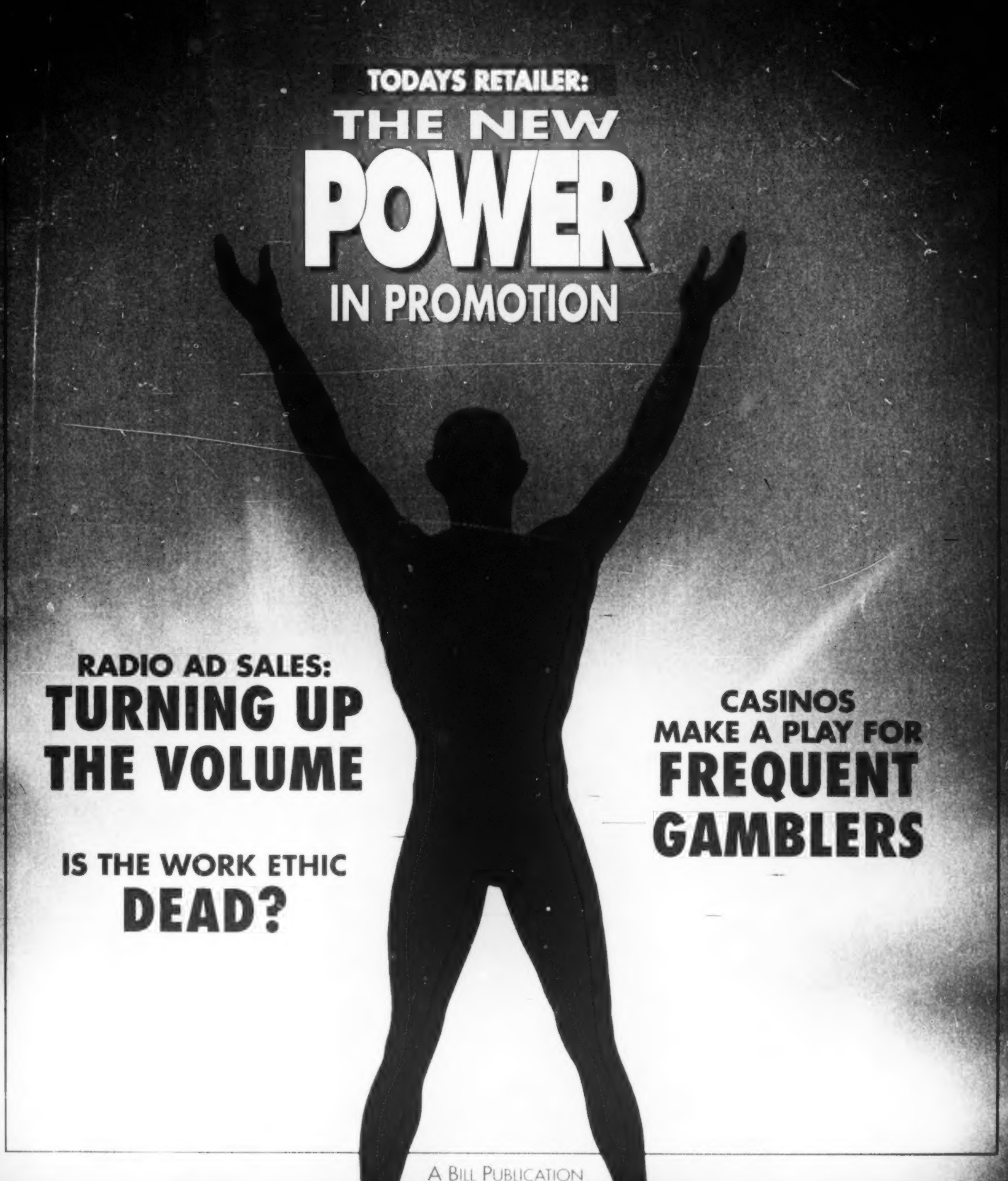
MANAGING AND MARKETING THROUGH MOTIVATION



TODAYS RETAILER:

THE NEW POWER IN PROMOTION

RADIO AD SALES:

TURNING UP THE VOLUME

IS THE WORK ETHIC

DEAD?

CASINOS MAKE A PLAY FOR

FREQUENT GAMBLERS

A BILL PUBLICATION

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FROM THE EDITOR

MORE THAN A GOOD IDEA...

BY BRUCE BOLGER

In July, Incentive magazine published the first-ever comprehensive guide to incentive planning, "How to Run an Incentive Program." We knew it was a good idea, but we didn't know just *how* good until after it was published.

The idea for the booklet came from you—our readers, who frequently call to request a single, comprehensive guide to incentive planning. Until now, we could only send you back issues of the magazine. We knew of no up-to-date authoritative guide that put all the basic information in one place. We realized that, with the help of some of our advertisers, we could fill that void.

To research the booklet, we enlisted the aid of Maritz Motivation Inc., a leading incentive company, and the American Productivity & Quality Center, the nation's authority on performance measurement and employee involvement. To help fund the effort, we turned to six sponsors: American Airlines, Bulova Corporation, ITT Sheraton Hotels, Norwegian Cruise Lines, Oneida Silversmiths and Thomson Consumer Electronics.

Todd Englander, now **Incentive**'s executive editor, spent several days at Maritz headquarters and pored over reams of documents provided by the APQC and our magazine. Todd and I reviewed the latest research on employee motivation to determine what information had to be covered. Our goal: to provide corporations and organizations with a modern blueprint for constructing meaningful employee motivation programs—for sales and nonsales employees alike.

While we knew that industry was badly in need of this booklet, we were still surprised by the breadth of response we've experienced since its publication in July. We've received dozens of requests for more copies from a broad array of businesses, trade associations and libraries, and many readers telephoned to tell us it had become a must-read for executives in their organizations. We are particularly pleased to hear of several leading trade associations *outside* the incentive field who want to include it with the literature they provide to members.

While we are heartened by the enthusiastic response, we believe we can do more to help companies maximize the effectiveness of their incentive programs. Next year, we will publish an even more comprehensive planning guide, one that will provide smaller users with the tools they need to enhance performance through incentives.

Incentive's number-one goal has always been to help companies improve performance by motivating customers and employees. I thank our sponsors and Todd Englander for helping to develop such a critical step toward achieving that goal.

Bruce Bolger

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FACTS SURVEY:
TRAVEL INCENTIVES

The journey to higher sales continues, but at a slightly slower pace.

Incentive travel planners are having a good—but not a great—year. The sales gains registered by their programs are averaging 16.7 percent, a shade better than the 16 percent found in last year's survey. Both years, however, represent a decline from the pattern established in the previous five years.

To find a lighter yield, we have to go back to the recession period of 1982-83, with its 11 and 14 percent sales-gain results. Every year since then, incentive travel has produced sales increments ranging from 17.7 percent (in 1984) to 21 percent (1988).

Other FACTS surveys this year have unmasked the "culprits" producing this decline: While sales incentives appear to be producing effective results retail and wholesale dealers are dragging their feet a bit. Users of sales incentives—both merchandise and travel—reported gains of 18.4 percent, but dealer-incentive planners logged only 14.8 percent sales gains with their promotions.

Overall, however, travel incentives' powerful lure continues. The 175 executives in the 1990 survey say that 35 percent of program participants, on the average, qualify for their travel incentive offerings; that compares with 34 percent a year ago. More good news: travel-program costs are stable. The percentage of incremental sales spent on the incentive plan is 10.7, compared with 10.6 percent in 1989. And the median has actually declined a point, to 6 percent, indicating that many users are tightening the reins, thus making any dip in sales results a little easier to bear.

The leaning toward cost containment is further echoed in the per-trip outlays for the basic award. While the average per-person trip cost has risen to $1,805 from last year's $1,650, the median price has stayed at $1,500. It appears that although some corporate users are paying higher prices for their travel awards, the typical travel buyer has kept the budget in line with last year's.

TRAVEL INCENTIVE OBJECTIVES

Percentage of respondents reporting

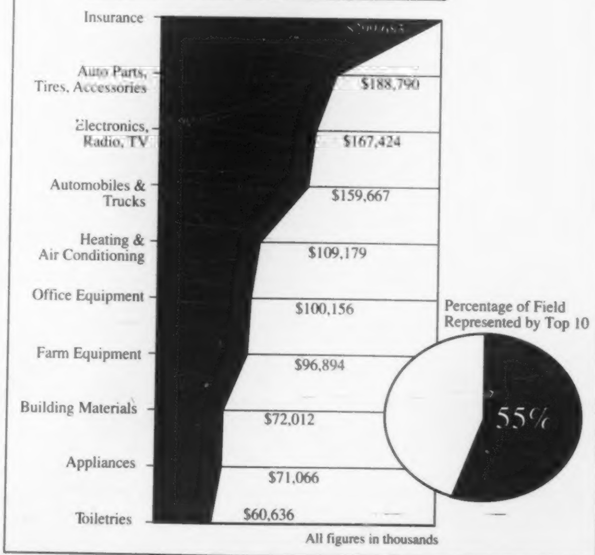
Increase overall volume	72%
Sell new accounts	51%
Improve morale/good will	47%
Introduce new product	31%
Move full line or slow items	28%
Offset competition	26%
Bolster slow season	17%
Support consumer promotion	12%
Prepare for strong season	10%
Build dealer traffic	9%

As a group, this year's respondents show other evidence of belt-tightening. Their actual 1989 budgets and projected 1990 travel budgets show an increase of 5.9 percent, compared with the 9.5 percent advance in travel spending produced from last year's final estimates.

Last year's FACTS study put total incentive travel spending at $2.4 billion; 59 percent targeted sales-force motivation, and the remainder was aimed at dealers. The sales incentive segment has been growing steadily; it first passed the 50 percent mark six years ago. The biggest user of travel incentives for salespeople continues to be the insurance industry, which spent just under $300 million last year. Makers of auto parts, tires and accessories rank second in travel usage, followed by electronics, radio and television, and then automobiles and trucks.

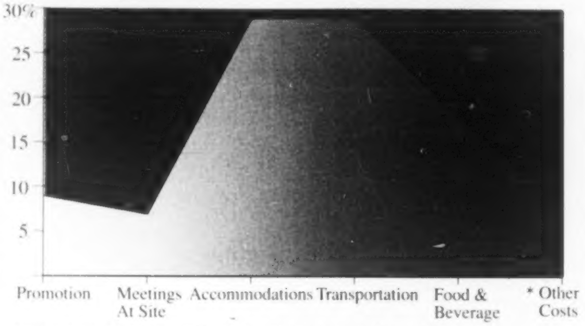
As always, incentive travel's target audiences vary greatly. Of the eight types listed in

Top 10 Incentive Travel Users (1990)



All figures in thousands

Where The Travel Budget Goes



* includes ground transportation, side trips, insurance, entertainment, etc.

the survey questionnaire, the largest group sent packing is sales personnel, targeted by 83 percent of the executives. Retail salespeople are the focus of 21 percent, and distributor salespeople 19 percent. Direct sellers account for 15 percent of programs, and independent sales representatives 16 percent. Thirty percent of respondents aim programs at retail dealers and 19 percent create them for distributors. The final—and growing—category, non-sales employees, is targeted by 21 percent of surveyed executives.

The expansion of incentive travel in recent years has sparked an increase in individual travel awards. About 54 percent of respondents conduct group trips, but almost as many—50 percent—now use individual travel awards as well, with trip timing and destination left largely to the discretion of each winner.

Although foreign travel retains its glamour, the largest number of users continue to touch down in domestic destinations. Hawaii, Florida, California, Nevada and Arizona are the current states of choice. Forty-five percent of surveyed users sometimes select foreign destinations, pouring an average of 55 percent of their budgets into those locales. On the domestic front, 87 percent of users pick U.S. spots, spending 78 percent of their budgets on such programs. All told, users spend about 28 percent of all travel expenditures on foreign trips and 72 percent on domestic journeys.

TRAVEL FACTS IN BRIEF

Programs per year (median)
Domestic: 2
Foreign: 1

Group trips
Users: 54%
Average number of participants: 160
Median number of participants: 70
Average length: 5 nights

Business meetings
Hold meetings: 57%
Average number of hours: 11.2

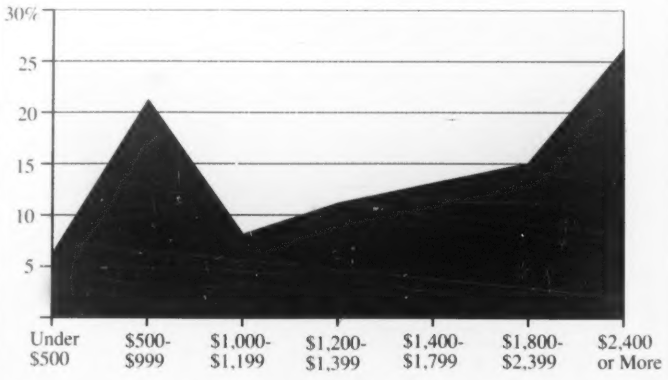
Buy-ins
Allow buy-in: 27%
Average of buy-in: 31%

Merchandise
Users with travel: 53%

Consumer travel
Users: 23%
Pay for it: 85%
Trade for it: 18%

Decision makers
President, CEO, executive VP: 69%
Sales/marketing director: 20%
Meeting planner: 6%
Product/merchandise manager: 4%
Advertising/sales promotion director: 2%

Cost of Incentive Trip



Average - $1,805 Median - $1,500

How long is the typical travel program qualification period? According to these users, program structures mandate everything from two weeks to two years. The average in this survey is 31 weeks. The planning period, meanwhile, runs around 40 weeks, often overlapping with the selling period. The whole process usually consumes about a year's effort on the part of the sales executive and staff.

While sculpting their programs, this year's executives keep a well-trained eye on their program budgets. The dollars continue to come from various sources; most planners—63 percent—operate from a pre-set budget. Fifteen percent operate from a promotional budget, while 12 percent derive their dollars from sales forecasts. Eleven percent of respondents base their travel program funding on a percentage of incremental sales.

However it is established, the budget usually is dictated by expected sales, and 60 percent of travel users say that sales forecasts provide the basis for quotas. About 33 percent set the budget first and base their quotas on it, and the remaining 7 percent use other, unspecified methods to approximate quotas.

Most planners build a degree of flexibility into their budgets, especially the 73 percent of respondents who use the popular open-ended method of selecting winners (where all who qualify take the trip). The other 27 percent take the more rigid route, favoring a predetermined number of winners to match a fixed budget.

A key question confronted during the early planning stages: whether travel only or travel and merchandise together will make up the award mix. The survey finds that 53 percent of these users prefer to offer some merchandise incentives, while the other 47 percent like to bestow only travel on their winners.

Some who favor merchandise think of it primarily as support for the travel theme, including everything from advertising specialties to substantial gifts playing off the theme. But many still are convinced that a two-tiered award structure is best—with merchandise presented to people who achieve a portion of the sales goal, but who do not qualify fully for the trip. The practice is especially prevalent in sales campaigns, less so in a majority of dealer campaigns.

David H. Sperry, president and general manager of Construction Supply Corp., Jupiter, Fla., is one executive who offers a dual program for both groups—salespeople and building-materials dealers. He claims that merchandise awards helped "increase sales volume by 20 percent over non-merchandise offerings." He reports that in addition to such prizes, he conducts small group trips to both foreign and domestic destinations.

"Merchandise provides one additional means of incentive and is easiest to define and cost in programs," asserts a Southeastern computer-software executive, who offers merchandise, group trips and individual

POPULAR DESTINATIONS

(RANKED IN ORDER)

DOMESTIC

373 responses

1. CALIFORNIA
Anaheim
Laguna
Los Angeles
Napa Valley
Palm Desert
Palm Springs
San Diego
San Francisco
Santa Barbara

2. FLORIDA
Boca Raton
Ft. Lauderdale
Ft. Myers
Key Biscayne
Key West
Miami
Orlando
St. Petersburg
Tampa
West Palm Beach

3. HAWAII
Kauai
Kona (Big Island)
Maui
Oahu

4. NEVADA
Lake Tahoe
Las Vegas
Reno

5. ARIZONA
Phoenix
Scottsdale
Sedona

6. BERMUDA

7. NEW YORK
Lake Placid
New York City

8. BAHAMAS

9. ILLINOIS
Chicago

10. PUERTO RICO
Cerromar Beach
San Juan

11. LOUISIANA
New Orleans
SOUTH CAROLINA
Charleston
Hilton Head Island

12. TENNESSEE
Gatlinburg
Nashville
TEXAS
Corpus Christi
Dallas
San Antonio
U.S. VIRGIN ISLANDS
St. Croix
St. John
St. Thomas

13. ALASKA
Cruise
COLORADO
Denver
Snowmass
Vail
GEORGIA
Atlanta
MASSACHUSETTS
Boston
Cape Cod
NEW JERSEY
Atlantic City

14. WISCONSIN
Delavan

15. MISSOURI
St. Louis
NORTH CAROLINA
Asheville
High Point
PENNSYLVANIA
Poconos
VIRGINIA
Lynchburg
Williamsburg

16. ARKANSAS
DISTRICT OF COLUMBIA
IOWA
KENTUCKY
MARYLAND
Annapolis
MICHIGAN
Bellaire
WASHINGTON
Seattle
WEST VIRGINIA

FOREIGN

WESTERN HEMISPHERE

83 responses

1. MEXICO
Acapulco
Cancun
Cozumel
Ixtapa
Puerta Vallarta

2. CRUISE

3. CARIBBEAN
Antigua
Aruba
Barbados
Jamaica
St. Martin

4. CANADA
Banff
Montreal
Nova Scotia
New Brunswick
Toronto
Vancouver

5. SOUTH AMERICA
Brazil

OTHER CONTINENTS

84 responses

1. ENGLAND
London

2. FRANCE
Cannes
Paris
ITALY
Milan
Rome
Venice

3. SWITZERLAND
Geneva
Lausanne

4. GERMANY
Berlin (East and West)
SPAIN
Barcelona
Madrid
HONG KONG

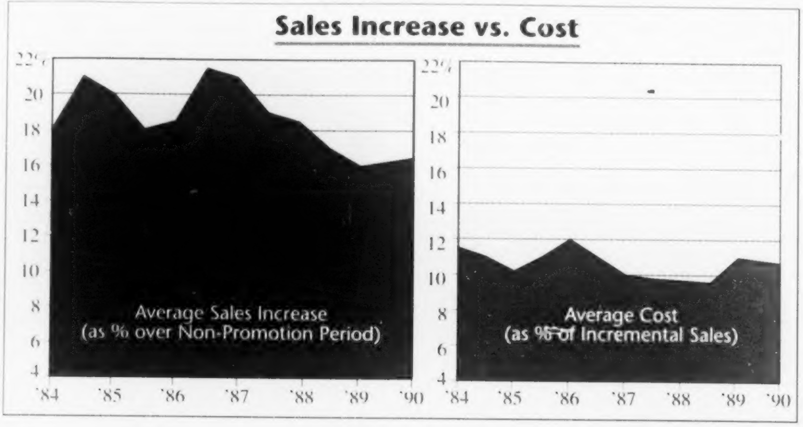
5. MONACO
Monte Carlo

6. AUSTRIA
Vienna
DENMARK
Copenhagen
PORTUGAL
Lisbon
AUSTRALIA
JAPAN

7. GREECE
IRELAND

8. HOLLAND
SWEDEN
CZECHOSLOVAKIA
RUSSIA
ISRAEL
EGYPT
KENYA
THAILAND
CHINA

Note: Destinations tied in number of responses are listed under the same ranking.



travel to company salespeople and nonsales personnel.

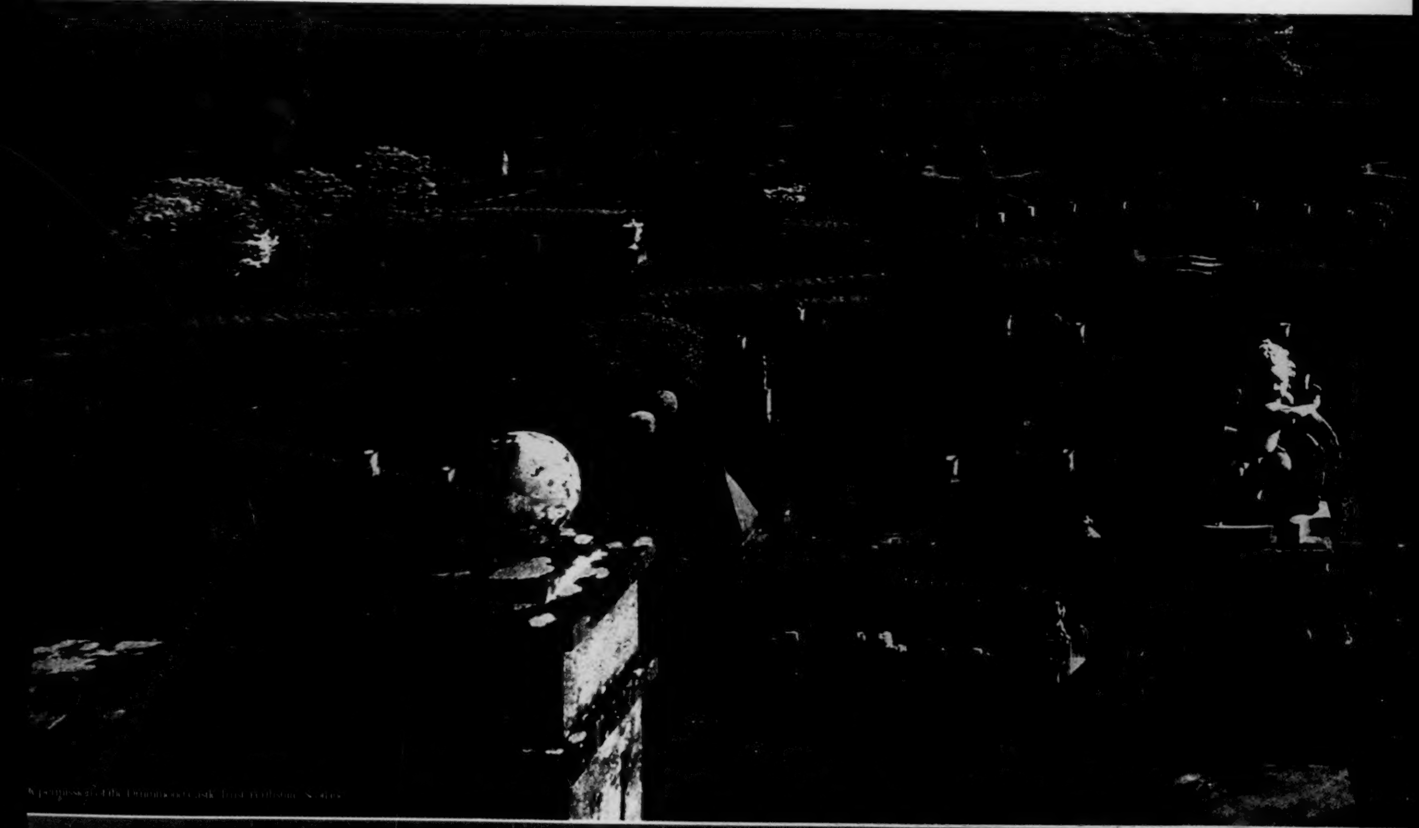
A Midwestern manufacturer of printing equipment uses merchandise to spur performance beyond trip qualification. "We use merchandise as incentives to *surpass* quota performance," he explains. "To qualify for the trip, the salesperson must make 102 percent of quota. Then extra awards are added at 115, 125, 150 and 200 percent of quota for the year."

On the travel side, J. Jacobs, president of Stein and Associates, a Chicago wholesaler, has good reason to concentrate on group journeys. "The purpose of our travel incentives," he says, "is to promote professional growth through exposure to foreign markets. Key staff and top clients attend domestic and European trade exhibitions and visit major factories. Our merchandise incentive program is separate and distinct."

Travel's traditional lures, meanwhile, still beckon. An Eastern insurer comments: "As an insurance company, our meetings are not just awards. Getting our agents together for business sessions is a very important part of the meeting. They hear from company management on our direction and achievements, and take part in future planning. It's also a time to receive awards in front of their peers."

A Southwestern appliance distributor also likes the personal rapport. "Appliance dealers react very favorably to travel incentives versus merchandise," he says. "Our return on investment far outweighs merchandise rewards, plus it's a real opportunity to promote camaraderie with our customers."

"We work with fairly affluent people—agents who own their own insurance agencies," says Steve Kautzman of Meridian Insurance



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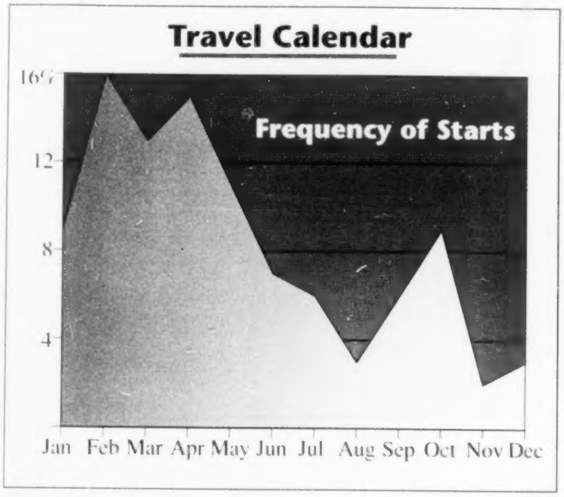
NORTHWEST AIRLINES

Co., Indianapolis. "These people are more motivated by travel than merchandise, since they can buy any merchandise on their own." A Midwestern aircraft maker agrees. Because he operates on a limited budget, he says he prefers the "greater benefit of having winners together and fostering the desire to be invited next year—and the winners' income is such that merchandise is of limited motivational value."

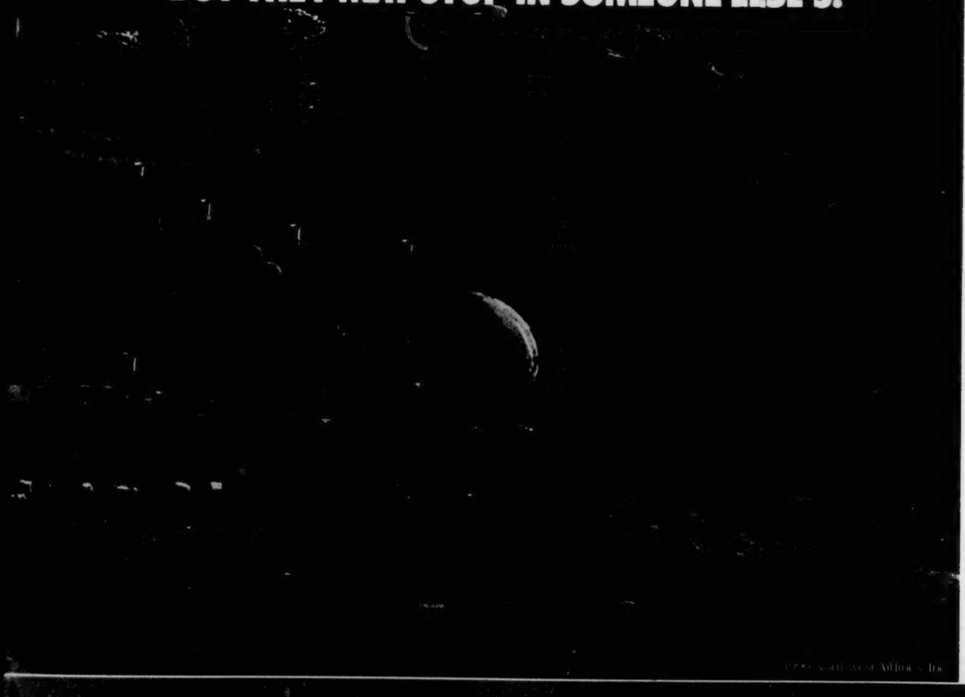

Travel Calendar

To enhance that motivational value, most of this year's respondents say they invite spouses along on trips. Some 92 percent offer trips for two, a little higher than the percentages of recent years. Also, a minority of 27 percent of respondents say they permit buy-ins—the practice of letting non-qualifiers go on the trip by paying a portion of the cost. At these firms, an average of 31 percent of winners buy in (this includes cases where the only buy-in option is for the cost of the spouse's trip). In all, executives say that buy-in options exist for only one winner in 12.

Program evaluation, a key component in any incentive travel program, continues to be based on a number of varying criteria. The majority of 59 percent of users measure total units or dollars of sales. Thirty percent rate the promotion on the basis of the percentage of persons reaching quota; 31 percent look at the effects on market share; 25 percent consider the profit on incremental sales, and 18 percent use branch or district performance as their primary criterion (the total exceeds 100 percent because of multiple measurements conducted by the executives).

Beyond these measurements, respondents still gauge a program's effectiveness on hitting the primary objective. Apart from the broad goal of increasing sales volume—now emphasized by 72 percent—the leading objective among this year's group is selling new accounts, targeted by a 51 percent majority. Forty-seven percent cite improving morale and good will as a prime goal of their incentive travel campaigns.

TO INSPIRE TOP PERFORMANCE, INCENTIVE TRAVEL COMPANIES DON'T STOP AT THEIR OWN BACKYARD. BUT THEY MAY STOP IN SOMEONE ELSE'S.



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Of all the places you could send your top performers, you might not think of a Victorian garden in the hills of Scotland. A Japanese tea garden. Or the water garden that inspired Monet.

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They specialize in finding unique destinations. More than that, though, they know how to plan and promote an incentive program to create so much excitement employees achieve, and even exceed corporate goals.

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